TerraForm Power Operating, LLC and Subsidiaries

Unaudited Condensed Consolidated Financial Statements

Period Ended September 30, 2020 and 2019

TerraForm Power Operating, LLC

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report of TerraForm Power Operating, LLC ("Terra Operating" and, together with its subsidiaries, the "Company") for the period ended September 30, 2020 (this "Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements involve estimates, expectations, projections, goals, assumptions, known and unknown risks, and uncertainties and typically include words or variations of words such as "expect," "anticipate," "believe," "intend," "plan," "seek," "estimate," "predict," "project," "opportunities," "goal," "guidance," "outlook," "initiatives," "objective," "forecast," "target," "potential," "continue," "would," "will," "should," "could," or "may" or other comparable terms and phrases. All statements that address operating performance, events, or developments that the Company expects or anticipates will occur in the future are forward-looking statements. They may include estimates of expected cash available for distribution, distributions growth, earnings, revenues, income, loss, capital expenditures, liquidity, capital structure, margin enhancements, cost savings, future growth, financing arrangements and other financial performance items (including future distributions per share), descriptions of management's plans or objectives for future operations, products, or services, or descriptions of assumptions underlying any of the above. Forward-looking statements provide the Company's current expectations or predictions of future conditions, events, or results and speak only as of the date they are made. Although the Company believes its expectations and assumptions are reasonable, it can give no assurance that these expectations and assumptions will prove to have been correct, and actual results may vary materially.

Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are listed below:

- risks related to our acquisition by Brookfield Renewable Partners L.P. ("Brookfield Renewable"), including our ability to realize the expected benefits of this transaction;
- risks related to weather conditions at our wind and solar assets;
- the willingness and ability of contract counterparties to fulfill their obligations under offtake agreements and other contracts;
- price fluctuations, termination provisions and buyout provisions in offtake agreements;
- our ability to enter into contracts to sell power at acceptable prices and terms, including as our offtake agreements expire;
- our ability to compete against traditional utilities and renewable energy companies;
- pending and future litigation;
- risks related to the COVID-19 pandemic, including its impact on personnel, contract counterparties, power prices and financial markets, as well as its impact on our business, results of operations, financial condition and/or cash flows;
- our ability to successfully close the acquisitions of, integrate or realize the anticipated benefits from the projects that we acquire from third parties;
- our ability to implement and realize the benefit of our cost and performance enhancement initiatives, including long-term service agreements and our ability to realize the anticipated benefits from such initiatives;
- equipment failure;
- risks related to the ability of our hedging activities to adequately manage our exposure to commodity and financial risk;
- risks related to our operations being located internationally, including our exposure to foreign currency exchange rate fluctuations and political and economic uncertainties;
- government regulation, including compliance with regulatory and permit requirements and changes in tax laws, market rules, rates, tariffs, environmental laws, consumer protection laws, data privacy laws and policies affecting renewable energy;
- the regulated rate of return of renewable energy facilities in our Regulated Solar and Wind segment, a reduction of which could have a material negative impact on our results of operations;
- our ability to grow and make acquisitions with cash on hand, which may be limited by our cash distribution policy;
- fraud, bribery, corruption or other illegal acts;
- health, safety, security and environmental risk;
- the condition of the debt and equity capital markets and our ability to borrow additional funds and access capital markets, as well as our substantial indebtedness and the possibility that we may incur additional indebtedness in the future;

- operating and financial restrictions placed on us and our subsidiaries related to agreements governing indebtedness; and
- risks related to the effectiveness of our internal control over financial reporting.

The Company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions, factors, or expectations, new information, data, or methods, future events, or other changes, except as required by law. We operate in a competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and you should understand that it is not possible to predict or identify all such factors and, consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: +1 212 773 6530
ey.com

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Review Report of Independent Auditors

Management and Board of TerraForm Power Operating, LLC

We have reviewed the condensed consolidated financial information of TerraForm Power Operating, LLC and subsidiaries which comprise the condensed consolidated balance sheet as of September 30, 2020, and the related condensed consolidated statements of operations, comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2020 and 2019 and cash flows and member's equity for the nine-month periods ended September 30, 2020 and 2019. The accompanying condensed consolidated balance sheet of TerraForm Power Operating LLC and subsidiaries as of December 31, 2019 was not reviewed by us, and accordingly, we do not express any form of assurance on it.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
November 13, 2020

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Operating revenues, net	$ 296,170	$ 253,808	$ 820,261	$ 734,506
Operating costs and expenses:				
Cost of operations	69,769	75,037	189,559	207,363
General and administrative expenses	34,333	16,360	79,369	62,054
General and administrative expenses - affiliate	4,189	7,764	25,347	19,087
Depreciation, accretion and amortization expense	135,795	114,282	386,094	321,605
Total operating costs and expenses	244,086	213,443	680,369	610,109
Operating income	52,084	40,365	139,892	124,397
Other expenses (income):				
Interest expense, net	84,044	89,393	247,335	246,721
Loss (gain) on modification and extinguishment of debt, net	—	1,355	3,593	(4,188)
(Gain) loss on foreign currency exchange, net	(32,737)	10,975	(37,724)	(4,217)
Other income, net	(2,001)	(557)	(9,140)	(1,752)
Total other expenses, net	49,306	101,166	204,064	236,564
Income (loss) before income tax expense	2,778	(60,801)	(64,172)	(112,167)
Income tax expense	1,846	1,512	2,410	3,030
Net income (loss)	932	(62,313)	(66,582)	(115,197)
Less: Net loss attributable to redeemable non-controlling interests	(35)	(7,341)	(14)	(14,241)
Less: Net loss attributable to non-controlling interests	(9,577)	(135)	(35,046)	(33,897)
Net income (loss) attributable to member's equity	$ 10,544	$ (54,837)	$ (31,522)	$ (67,059)

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	$ 932	$ (62,313)	$ (66,582)	$ (115,197)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Net unrealized gain arising during the period	10,731	6,934	29,540	15,806
Hedging activities:				
Net unrealized loss arising during the period	(1,928)	(16,619)	(42,065)	(43,907)
Reclassification of net realized loss (gain) into earnings	1,149	3,389	(1,948)	(2,439)
Other comprehensive income (loss), net of tax	9,952	(6,296)	(14,473)	(30,540)
Total comprehensive income (loss)	10,884	(68,609)	(81,055)	(145,737)
Less comprehensive income (loss) attributable to non-controlling interests:				
Net loss attributable to redeemable non-controlling interests	(35)	(7,341)	(14)	(14,241)
Net loss attributable to non-controlling interests	(9,577)	(135)	(35,046)	(33,897)
Hedging activities	(272)	188	(705)	920
Comprehensive loss attributable to non-controlling interests	(9,884)	(7,288)	(35,765)	(47,218)
Comprehensive income (loss) attributable to member’s equity	$ 20,768	$ (61,321)	$ (45,290)	$ (98,519)

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 226,146	$ 237,480
Restricted cash, current	47,567	35,657
Accounts receivable, net	228,099	167,865
Due from affiliates	2,518	499
Derivative assets, current	7,392	15,819
Deposit on acquisitions	2,648	24,831
Prepaid expenses	20,212	13,514
Other current assets	40,907	57,682
Total current assets	575,489	553,347
Renewable energy facilities, net	7,742,674	7,405,461
Intangible assets, net	1,889,879	1,793,292
Goodwill	177,272	127,952
Restricted cash	67,242	76,363
Derivative assets	45,237	57,717
Other assets	41,189	44,504
Total assets	$ 10,538,982	$ 10,058,636
Liabilities, Redeemable Non-controlling Interests and Member's Equity		
Current liabilities:		
Current portion of long-term debt	$ 678,672	$ 441,951
Accounts payable, accrued expenses and other current liabilities	168,985	178,796
Due to affiliates	2,378	11,510
Derivative liabilities, current portion	55,505	33,969
Total current liabilities	905,540	666,226
Long-term debt	6,173,658	5,793,431
Operating lease obligations	291,330	272,894
Asset retirement obligations	315,898	287,288
Derivative liabilities	189,022	101,394
Deferred income taxes	174,222	186,527
Other liabilities	87,241	112,072
Total liabilities	8,136,911	7,419,832
Redeemable non-controlling interests	7,939	22,884
Member's Equity		
Contributed capital	2,416,427	2,519,698
Accumulated losses	(571,645)	(540,123)
Accumulated other comprehensive income	18,026	31,794
Non-controlling interests	531,324	604,551
Total member's equity	2,394,132	2,615,920
Total liabilities, redeemable non-controlling interests and member's equity	$ 10,538,982	$ 10,058,636

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(In thousands)

	Contributed Capital	Accumulated Losses	Accumulated Other Comprehensive Income	Non-controlling Interests	Total
Balance as of December 31, 2018	$ 2,406,581	$ (399,451)	$ 60,325	$ 667,468	$ 2,734,923
Stock-based compensation	366	—	—	—	366
Net loss	—	(67,059)	—	(33,897)	(100,956)
Cash distributions	(125,969)	—	—	—	(125,969)
Deemed distributions	(35)	—	—	—	(35)
Other comprehensive (loss) income	—	—	(31,459)	920	(30,539)
Contributions from non-controlling interests	—	—	—	5,562	5,562
Distributions to non-controlling interests	—	—	—	(12,427)	(12,427)
Purchase of redeemable non-controlling interests	1,223	—	—	(393)	830
Non-cash redemption of redeemable non-controlling interests	(7,345)	—	—	—	(7,345)
Non-controlling interests acquired in business combination	—	—	—	3,025	3,025
Balance as of September 30, 2019	$ 2,274,821	$ (466,510)	$ 28,866	$ 630,258	$ 2,467,435

	Contributed Capital	Accumulated Losses	Accumulated Other Comprehensive Income	Non-controlling Interests	Total
Balance as of December 31, 2019	$ 2,519,698	$ (540,123)	$ 31,794	$ 604,551	$ 2,615,920
Stock-based compensation	639	—	—	—	639
Net loss	—	(31,522)	—	(35,046)	(66,568)
Cash distributions	(116,978)	—	—	—	(116,978)
Deemed contributions	116	—	—	—	116
Other comprehensive loss	—	—	(13,768)	(705)	(14,473)
Contributions from non-controlling interests	—	—	—	3,008	3,008
Distributions to non-controlling interests	—	—	—	(40,484)	(40,484)
Purchase of redeemable non-controlling interests	12,952	—	—	—	12,952
Balance as of September 30, 2020	$ 2,416,427	$ (571,645)	$ 18,026	$ 531,324	$ 2,394,132

See accompanying notes to unaudited condensed consolidated financial statements.

TERRAFORM POWER OPERATING, LLC AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (66,582)	$ (115,197)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, accretion and amortization expense	386,094	321,605
Amortization of favorable and unfavorable rate revenue contracts, net	29,645	28,645
Amortization of deferred financing costs, debt premiums and discounts, net	12,053	7,720
Unrealized (gain) loss on interest rate swaps	(7,360)	23,094
Unrealized loss (gain) on commodity contract derivatives, net	6,346	(3,840)
Recognition of deferred revenue	(446)	(1,987)
Stock-based compensation expense	986	468
Loss (gain) on modification and extinguishment of debt, net	3,593	(4,188)
Loss on disposal of renewable energy facilities	5,158	13,293
Gain on foreign currency exchange, net	(34,496)	(4,649)
Deferred taxes	4,315	139
Charges to (reduction of) allowance doubtful accounts	2,157	(3,299)
Other, net	216	(308)
Changes in assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(24,864)	(32,198)
Prepaid expenses and other current assets	6,209	9,278
Accounts payable, accrued expenses and other current liabilities	(25,484)	5,238
Due (from) to affiliates, net	(11,166)	1,818
Other, net	(21,460)	22,571
Payments to terminate interest rate swaps	(85,066)	—
Net cash provided by operating activities	179,848	268,203
Cash flows from investing activities:		
Capital expenditures	(27,798)	(16,508)
Proceeds from energy rebate and reimbursable interconnection costs	455	5,123
Proceeds from the settlement of foreign currency contracts, net	35,069	28,063
Payments to acquire businesses, net of cash and restricted cash acquired	(79,849)	(617,587)
Payments to acquire renewable energy facilities from third parties, net of cash and restricted	—	(18,255)
Payment of deposit on acquisitions	—	(114,195)
Other investing activities	2,747	2,476
Net cash used in investing activities	(69,376)	(730,883)
Cash flows from financing activities:		
Proceeds from Bridge Facility	—	475,000
Revolver draws	291,000	409,500
Revolver repayments	(182,000)	(430,500)
Term Loan principal payments	—	(2,625)
Borrowings of non-recourse long-term debt	594,219	312,053
Principal payments and prepayments on non-recourse long-term debt	(659,120)	(186,329)
Debt financing fees paid	(13,333)	(15,972)
Contributions from non-controlling interests	3,008	5,562
Purchase of membership interests and distributions to non-controlling interests	(42,331)	(17,204)
Cash distributions	(116,977)	(125,969)
Other financing activities	(971)	—
Net cash (used in) provided by financing activities	(126,505)	423,516
Net decrease in cash, cash equivalents and restricted cash	(16,033)	(39,164)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	7,488	(9,414)
Cash, cash equivalents and restricted cash at beginning of period	349,500	392,809
Cash, cash equivalents and restricted cash at end of period	$ 340,955	$ 344,231

See accompanying notes to unaudited condensed consolidated financial statements.

1. NATURE OF OPERATIONS AND ORGANIZATION

TerraForm Power Operating, LLC ("Terra Operating" and, together with its subsidiaries, the "Company") is a Delaware limited liability company whose primary business strategy is to own and operate solar and wind assets in North America and Western Europe. Terra Operating, through its subsidiaries, owns and operates renewable energy facilities that have long-term contractual arrangements to sell the electricity generated by these facilities to third parties. The related green energy certificates, ancillary services and other environmental attributes generated by these facilities are also sold to third parties. Terra Operating is the wholly-owned direct subsidiary of TerraForm Power, LLC ("Terra LLC"). Terra LLC is controlled and majority owned by TerraForm Power NY Holdings, Inc. ("TERP NY"), the successor entity by merger to TerraForm Power, Inc. ("TERP Inc.") TERP NY is a holding company whose primary asset is its ownership of the majority of the membership interests in Terra LLC. Terra LLC is the managing member of Terra Operating and its primary asset is its ownership of 100% of the membership interests in Terra Operating.

As more fully described in *Note 15. Related Parties*, on July 31, 2020, TERP Inc., the entity that formerly was previously the direct owner of Terra LLC, merged with and into TERP NY, with TERP NY surviving the merger. As a result of the merger, through a series of related transactions, affiliates of Brookfield Renewable Partners L.P. ("Brookfield Renewable") acquired all of the outstanding shares of Class A common stock ("Common Stock") of TERP Inc., other than the approximately 62% already owned by Brookfield Renewable and its affiliates (the "Brookfield Renewable Merger"). As a result of the Brookfield Renewable Merger, effective July 31, 2020, the Company became a wholly-owned indirect subsidiary of Brookfield Renewable and its affiliates. The Company is a controlled affiliate of Brookfield Asset Management Inc. ("Brookfield"). As of September 30, 2020, Brookfield Renewable and its affiliates held 100% of the Common Stock of TERP NY. As of September 30, 2020, Brookfield owned approximately 51.5% of Brookfield Renewable on a fully-exchanged basis and the remaining approximately 48.5% is held by public investors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information per ASC 270, *Interim Reporting*. They include the results of wholly-owned and partially-owned subsidiaries in which the Company has a controlling interest with all significant intercompany accounts and transactions eliminated. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all material adjustments consisting of a normal and recurring nature necessary to present fairly the Company's financial position as of September 30, 2020, results of operations, comprehensive income (loss) for the three and nine months ended September 30, 2020 and 2019 and cash flows for the nine months ended September 30, 2020 and 2019.

Use of Estimates

In preparing the unaudited condensed consolidated financial statements, the Company uses estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements. Such estimates also affect the reported amounts of revenues, expenses, and cash flows during the reporting period. These estimates may change as new events occur and additional information is obtained. To the extent there are material differences between the estimates and actual results, the Company's future results of operations would be affected.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and money market funds with original maturity periods of three months or less when purchased.

Restricted Cash

Restricted cash consists of cash on deposit in financial institutions that is restricted to satisfy the requirements of certain debt agreements and funds held within the Company's project companies that are restricted for current debt service payments and other purposes in accordance with the applicable debt agreements. These restrictions include: (i) cash on deposit in collateral accounts, debt service reserve accounts and maintenance reserve accounts; and (ii) cash on deposit in operating accounts but subject to distribution restrictions related to debt defaults existing as of the date of the balance sheet. Restricted cash that is not expected to become unrestricted within twelve months from the date of the balance sheet is presented within non-current assets in the unaudited condensed consolidated balance sheets.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported on the unaudited condensed consolidated balance sheets, including both billed and unbilled amounts, and are adjusted for the allowance for doubtful accounts and any write-offs. The Company establishes an allowance for doubtful accounts to adjust its receivables to amounts considered to be ultimately collectible, and charges to the allowance are recorded within general and administrative expenses or cost of operations, as appropriate, in the unaudited condensed consolidated statements of operations. The Company's allowance for doubtful accounts is based on a variety of factors, including the length of time receivables are past due, significant one-time events, the financial health of its customers, and historical experience. Accounts receivable are written off in the period in which the receivable is deemed uncollectible, and collection efforts have been exhausted.

Renewable Energy Facilities

Renewable energy facilities consist of solar generation and storage facilities and wind power plants that are stated at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. Depreciation of the Company's solar and storage facilities is recognized using the straight-line composite method over their estimated useful lives. Under this method, the Company's assets with similar characteristics and estimated useful lives are grouped and depreciated as a single unit. Depreciation of the Company's wind power plants is calculated based on the major components of wind power plants and is recognized over the estimated periods during which these major components remain in service.

Construction in-progress represents the cumulative construction costs, including the costs incurred for the purchase of major equipment and engineering costs and any capitalized interest. Once the project achieves commercial operation, the Company reclassifies the amounts recorded in construction in progress to renewable energy facilities in service.

Finite-Lived Intangibles

The Company's finite-lived intangible assets and liabilities represent revenue contracts, consisting of long-term licensing agreements, power purchase contracts ("PPAs"), and renewable energy credits ("RECs") that were obtained through third-party acquisitions. The revenue contract intangibles comprise favorable and unfavorable rate PPAs and REC agreements and the in-place value of market-rate PPAs. Intangible assets and liabilities that have determinable estimated lives are amortized on a straight-line basis over those estimated lives. Amortization of favorable and unfavorable rate revenue contracts is recorded within operating revenues, net in the unaudited condensed consolidated statements of operations. Amortization expense related to the licensing contracts and in-place value of market-rate revenue contracts is recorded within depreciation, accretion and amortization expense in the consolidated statements of operations. The straight-line method of amortization is used because it best reflects the pattern in which the economic benefits of the intangibles are consumed or otherwise used up. The amounts and useful lives assigned to intangible assets acquired and liabilities assumed impact the amount and timing of future amortization.

Impairment of Renewable Energy Facilities and Intangibles

Long-lived assets that are held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized when indicators of impairment are present and the total future estimated undiscounted cash flows expected from an asset are less than its carrying value. The Company review our current activities, changes in the conditions of our renewable energy facilities and the market conditions in which they operate to determine the existence of any indicators requiring an impairment analysis. Indicators of potential impairment for a long-lived asset group, generally this is an individual renewable energy project, include severe adverse changes in the financial condition of a customer to our offtake agreements, a significant decline in forecasted operating revenues and earnings of our operating projects, and deterioration in the performance of our renewable energy facilities. An impairment charge is measured as the difference between a long lived asset group's carrying amount and its fair value. The fair values are determined by a variety of valuation methods, including appraisals, sales prices of similar assets, and present value techniques.

Goodwill

The Company evaluates goodwill for impairment at least annually on December 1. The Company performs an impairment test between scheduled annual tests if facts and circumstances indicate that it is more-likely-than-not that the fair value of a reporting unit that has goodwill is less than its carrying value. A reporting unit is either the operating segment level or one level below, which is referred to as a component. The level at which the impairment test is performed requires judgment as to whether the operations below the operating segment constitute a self-sustaining business or whether the operations are similar such that they should be aggregated for purposes of the impairment test.

The Company may first make a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying value to determine whether it is necessary to perform the quantitative goodwill impairment test. The qualitative impairment test includes considering various factors, including macroeconomic conditions, industry and market conditions, cost factors, a sustained share price or market capitalization decrease, and any reporting unit specific events. If it is determined through the qualitative assessment that a reporting unit's fair value is more-likely-than-not greater than its carrying value, the quantitative impairment test is not required. If the qualitative assessment indicates it is more-likely-than-not that a reporting unit's fair value is not greater than its carrying value, the Company must perform the quantitative impairment test. The Company may also elect to proceed directly to the quantitative impairment test without considering such qualitative factors.

The quantitative impairment test is the comparison of the fair value of a reporting unit with its carrying amount, including goodwill. In accordance with the authoritative guidance over fair value measurements, the Company defines the fair value of a reporting unit as the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. The Company primarily uses the income approach methodology of valuation, which uses the discounted cash flow method to estimate the fair values of the Company's reporting units. The Company does not believe that a cost approach is relevant to measuring the fair values of its reporting units.

Significant management judgment is required when estimating the fair value of the Company's reporting units, including the forecasting of future operating results, the discount rates and expected future growth rates that it uses in the discounted cash flow method of valuation, and in the selection of comparable businesses that are used in the market approach. If the estimated fair value of the reporting unit exceeds the carrying value assigned to that unit, goodwill is not impaired. If the carrying value assigned to a reporting unit exceeds its estimated fair value, the Company records an impairment charge based on the excess of the reporting unit's carrying amount over its fair value. The impairment charge is limited to the amount of goodwill allocated to the reporting unit.

Deferred Financing Costs

Financing costs incurred in connection with obtaining senior notes and term financing are deferred and amortized over the maturities of the respective financing arrangements using the effective interest method and are presented as a direct deduction from the carrying amount of the related debt (see *Note 9. Long-term Debt* for additional details), except for the costs related to the Company's revolving credit facilities, which are presented as a non-current asset on the unaudited condensed consolidated balance sheets within other assets.

Inventory

Inventory consists of spare parts and is recorded at the lower of the weighted average cost of purchase or net realizable value within other current assets in the consolidated balance sheets. Spare parts are expensed to cost of operations in the unaudited condensed consolidated statements of operations or capitalized to renewable energy facilities when installed or used, as appropriate.

Asset Retirement Obligations

Asset retirement obligations are accounted for in accordance with ASC 410-20, Asset Retirement Obligations. Retirement obligations associated with renewable energy facilities included within the scope of ASC 410-20 are those for which a legal obligation exists under enacted laws, statutes, and written or oral contracts, and for which the timing and/or method of settlement may be conditional on a future event. Asset retirement obligations are recognized at fair value in the period in which they are incurred, and a corresponding asset retirement costs are recognized within the related renewable energy facilities. Over time, the asset retirement cost is depreciated over the estimated useful life of the related renewable energy facility, and the asset retirement obligation is accreted to its expected future value.

The Company generally reviews its asset retirement obligations annually, based on its review of updated cost studies, as necessary, and its evaluation of cost escalation factors. The Company evaluates newly assumed costs or substantive changes in previously assumed costs to determine if the cost estimate impacts are sufficiently material to warrant the application of the updated estimates to the asset retirement obligations. Changes resulting from revisions to the timing or amount of the original estimate of cash flows are recognized as an increase or a decrease in the asset retirement cost to the extent applicable.

Revenue from Contracts with Customers

PPA Rental Income

The majority of the Company's energy revenue is derived from long-term PPAs accounted for as operating leases under ASC 840, Leases. Rental income under these lease agreements is recorded as revenue when the electricity is delivered to the customer. The Company adopted ASC 842, Leases on January 1, 2019, and elected certain of the practical expedients permitted in the issued standard, including the expedient that permits the Company to retain its existing lease assessment and classification.

Solar and Wind PPA Revenue

PPAs that are not accounted for under the scope of leases or derivatives are accounted for under Topic 606. The Company typically delivers bundled goods consisting of energy and incentive products for a singular rate based on a unit of generation at a specified facility over the term of the agreement. In these types of arrangements, the volume reflects total energy generation measured in Kilowatt hours ("kWhs"), which can vary period to period depending on system and resource availability. The contract rate per unit of generation (kWhs) is generally fixed at contract inception; however, certain pricing arrangements can provide for time-of-delivery, seasonal, or market index adjustment mechanisms over time. The customer is invoiced monthly equal to the volume of energy delivered multiplied by the applicable contract rate.

The Company considers bundled energy and incentive products within PPAs to be distinct performance obligations. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied under Topic 606. The Company views the sale of energy as a series of distinct goods that is substantially the same and has the same pattern of transfer measured by the output method. Although the Company views incentive products in bundled PPAs to be performance obligations satisfied at a point in time, measurement of satisfaction and transfer of control to the customer in a bundled arrangement coincides with a pattern of revenue recognition with the underlying energy generation. Accordingly, the Company applied the practical expedient in Topic 606 as the right to consideration corresponds directly to the value provided to the customer to recognize revenue at the invoice amount for its standalone and bundled PPA contracts.

Commodity Derivatives

The Company has certain revenue contracts within its wind fleet that are accounted for as derivatives under the scope of ASC 815, Derivatives and Hedging. Amounts recognized within operating revenues, net in the consolidated statements of operations consist of cash settlements and unrealized gains and losses representing changes in fair value for the commodity derivatives that are not designated as hedging instruments. See *Note 11. Derivatives* for further discussion.

Regulated Solar and Wind Energy Revenue

Regulated solar and wind includes revenue generated by Saeta's solar and wind operations in Spain, which are subject to regulations applicable to companies that generate production from renewable sources for facilities located in Spain. While Saeta's Spanish operations are regulated by the Spanish regulator, the Company has determined that the Spanish entities do not meet the criteria of a rate-regulated entity under ASC 980 Regulated Operations, since the rates established by the Spanish regulator are not designed to recover the entity's costs of providing its energy generation services. Accordingly, the Company applied Topic 606 to recognize revenue for these customer contract arrangements. The Company has distinct performance obligations to deliver electricity, capacity, and incentives which are discussed below.

The Company has a performance obligation to deliver electricity and these sales are invoiced monthly at the wholesale market price (subject to adjustments due to regulatory price bands that reduce market risk). The Company transfers control of the electricity over time and the customer receives and consumes the benefit simultaneously. Accordingly, the Company applied the practical expedient in Topic 606 as the right to consideration corresponds directly to the value provided to the customer to recognize revenue at the invoice amount for electricity sales.

The Company has a stand-ready performance obligation to deliver capacity in the Spanish electricity market in which these renewable energy facilities are located. Proceeds received by the Company from the customer in exchange for capacity are determined by a remuneration on an investment per unit of installed capacity that is determined by the Spanish regulators. The Company satisfies its performance obligation for capacity under a time-based measure of progress and recognizes revenue by allocating the total annual consideration evenly to each month of service.

Regulated Solar and Wind Incentive Revenue

For the Company's Spanish solar renewable energy facilities, the Company has identified a performance obligation linked to an incentive that is distinct from the electricity and capacity deliveries discussed above. For solar technologies under the Spanish market, the customer makes an operating payment per MWh which is calculated based on the difference of a standard cost and an expected market price, both, determined by the Spanish regulator. The customer is invoiced monthly equal to the volume of energy produced multiplied by the regulated rate. The performance obligation is satisfied when the Company generates electricity from the solar renewable facility. The Company recognizes revenue based on the amount invoiced each month.

Amortization of Favorable and Unfavorable Rate-Revenue Contracts

The Company accounts for its business combinations by recognizing in the financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree at fair value at the acquisition date. Intangible amortization of certain revenue contracts acquired in business combinations (favorable and unfavorable rate PPAs and REC agreements) is recognized on a straight-line basis over the remaining contract term. The current period amortization for favorable rate revenue contracts is reflected as a reduction to operating revenues, net, and amortization for unfavorable rate revenue contracts is reflected as an increase to operating revenues, net. See *Note 7. Intangible Assets, Net and Goodwill* for additional details.

Solar and Wind Incentive Revenue

The Company generates incentive revenue from individual incentive agreements relating to the sale of RECs and performance-based incentives to third-party customers that are not bundled with the underlying energy output. The majority of individual REC sales reflect a fixed quantity, fixed price structure over a specified term. The Company views REC products in these arrangements as distinct performance obligations satisfied at a point in time. Since the REC products delivered to the customer are not linked to the underlying generation of a specified facility, these RECs are recognized into revenue when delivered. The Company typically receives payment within 30 days of invoiced REC revenue.

For certain incentive contract arrangements, the quantity delivered to the customer is linked to a specific facility. The pattern of revenue recognition for these incentive arrangements is recognized over time coinciding with the underlying revenue generation from the related facility.

See *Note 4. Revenue* for additional disclosures.

Leases

Operating Lease Obligations

The Company has operating leases for renewable energy production facilities, land, office space, transmission lines, vehicles and other operating equipment. Leases with an initial term of twelve months or shorter are not recorded on the balance sheet, but are expensed on a straight-line basis over the lease term. During the year ended December 31, 2019, the Company did not have any leases with an initial term of less than twelve months.

Operating lease right-of-use assets are included within renewable energy facilities, net, whereas right-of-use liabilities are included within accounts payable, accrued expenses and other current liabilities. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company calculated an incremental borrowing rate by leveraging external transactions at comparable entities and internally available information to determine the present value of lease payments. The Company's leases have remaining lease terms ranging from 5 to 41 years.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise any such options. Lease expense is recognized on a straight-line basis over the expected lease term. Although some of the Company's leases contain lease and non-lease components, the Company applies the practical expedient to account for each lease component and non-lease component as a single lease component. Lease payments include fixed rent and taxes, where applicable, and exclude variable rental payments that include other operating expenses is recognized as incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The following tables outline the different components of operating leases and other terms and conditions of the lease agreements where the Company is the lessee.

A significant portion of the Company's operating revenues are generated from delivering electricity and related products from owned solar and wind renewable energy facilities under PPAs in which the Company is the lessor. Revenue is recognized when electricity is delivered and is accounted for as rental income under the lease standard. The adoption of ASC 842 did not have an impact on the accounting policy for rental income from the Company's PPAs in which it is the lessor. The Company elected the package of practical expedients available under ASC 842, which did not require the Company to reassess its lease classification from ASC 840. Additionally, the Company elected the practical expedient to not separate lease and non-lease components for lessors. This election allows energy (lease component) and environmental incentives or renewable energy certificates (non-lease components) under bundled PPAs to be accounted as a singular lease unit of account under ASC 842.

Financing Lease Obligations

Certain of the Company's assets were financed with sale-leaseback arrangements. Proceeds received from a sale-leaseback are treated using the financing method when the sale of the renewable energy facility is not recognizable. A sale is not recognized when the leaseback arrangements include a prohibited form of continuing involvement, such as an option or obligation to repurchase the assets under the Company's master lease agreements. Under these arrangements, the Company does not recognize any profit until the sale is recognizable, which the Company expects to recognize at the end of the arrangement when the contract is canceled and the initial deposits received are forfeited by the financing party.

The Company is required to make rental payments throughout the leaseback arrangements. These payments are allocated between principal and interest payments using an effective yield method.

Income Taxes

The Company is a limited liability company treated as a disregarded entity for U.S. income tax purposes. As such, U.S. federal, state and local income taxes ("U.S. Taxes") are not recognized at the Company's level, but are accounted for at TERP NY. Accordingly, the Company does not have a liability for U.S. Taxes; and therefore, no current or deferred U.S. income taxes are recorded in the unaudited condensed consolidated financial statements. However, the current and deferred income taxes related to the Company's certain foreign entities that are subject to corporate tax are reflected in the unaudited condensed consolidated financial statements.

Uncertain tax positions are measured against the more likely than not threshold, based on whether those positions would be expected to be sustained if examined by the relevant taxing authority. With respect to any tax positions that do not meet the more likely than not threshold, a corresponding liability is recorded in the unaudited condensed consolidated financial statements. While the taxing authority in a jurisdiction may not agree with the tax positions adopted, the Company does not expect that any assessments would be material to its financial position if the taxing authority did not agree with such positions. There are no reserves for uncertain tax positions as of September 30, 2020 and 2019.

Variable Interest Entities

The Company assesses entities for consolidation in accordance with ASC 810. The Company consolidates variable interest entities ("VIEs") in renewable energy facilities when determined to be the primary beneficiary. VIEs are entities that lack one or more of the characteristics of a voting interest entity ("VOE"). The Company has a controlling financial interest in a VIE when its variable interest or interests provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity is consolidated.

For the Company's consolidated VIEs, the Company has presented on its consolidated balance sheets, to the extent material, the assets of its consolidated VIEs that can only be used to settle specific obligations of the consolidated VIE, and the liabilities of its consolidated VIEs for which creditors do not have recourse to the Company's general assets outside of the VIE.

Non-controlling Interests and Hypothetical Liquidation at Book Value ("HLBV")

Non-controlling interests represent the portion of net assets in consolidated entities that are not owned by the Company and are reported as a component of equity in the consolidated balance sheets. Non-controlling interests in subsidiaries that are redeemable either at the option of the holder or at fixed and determinable prices at certain dates in the future are classified as redeemable non-controlling interests in subsidiaries between liabilities and stockholders' equity in the consolidated balance sheets. Redeemable non-controlling interests that are currently redeemable or redeemable after the passage of time are adjusted to their redemption value as changes occur. The Company applies the guidance in ASC 810-10 along with the SEC guidance in ASC 480-10-S99-3A in the valuation of redeemable non-controlling interests.

The Company has determined the allocation of economics between the controlling party and the third party for non-controlling interests does not correspond to ownership percentages for certain of its consolidated subsidiaries. In order to reflect the substantive profit sharing arrangements, the Company has determined that the appropriate methodology for determining the value of non-controlling interests is a balance sheet approach using the HLBV method. Under the HLBV method, the amounts reported as non-controlling interest on the consolidated balance sheets represent the amounts the third party investors could hypothetically receive at each balance sheet reporting date based on the liquidation provisions of the respective operating partnership agreements. HLBV assumes that the proceeds available for distribution are equivalent to the unadjusted, stand-alone net assets of each respective partnership, as determined under U.S. GAAP. The third party non-controlling interests in the consolidated statements of operations and statements of comprehensive loss are determined based on the difference in the carrying amounts of non-controlling interests on the consolidated balance sheets between reporting dates, adjusted for any capital transactions between the Company and third party investors that occurred during the respective period.

Where, prior to the commencement of operating activities for a respective renewable energy facility, HLBV results in an immediate change in the carrying value of non-controlling interests on the consolidated balance sheets due to the recognition of investment tax credits ("ITCs") or other adjustments as required by the U.S. Internal Revenue Code, the Company defers the recognition of the respective adjustments and recognizes the adjustments in non-controlling interest on the consolidated statements of operations on a straight-line basis over the expected life of the underlying assets giving rise to the respective difference. Similarly, where the Company has acquired a controlling interest in a partnership and there is a resulting difference between the initial fair value of non-controlling interest and the value of non-controlling interest as measured using HLBV, the Company initially records non-controlling interests at fair value and amortizes the resulting difference over the remaining life of the underlying assets.

Contingencies

The Company is involved in conditions, situations or circumstances in the ordinary course of business with possible gain or loss contingencies that will ultimately be resolved when one or more future events occur or fail to occur. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, that amount will be accrued. When no amount within the range is a better estimate than any other amount, the minimum amount in the range will be accrued. The Company continually evaluates uncertainties associated with loss contingencies and records a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to the issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements; and (ii) the loss or range of loss can be reasonably estimated. Legal costs are expensed when incurred. Gain contingencies are not recorded until realized or realizable.

Derivative Financial Instruments

Initial Recognition

The Company recognizes its derivative instruments as assets or liabilities at fair value in the consolidated balance sheets on a trade date basis unless they qualify for certain exceptions, including the normal purchases and normal sales exception. Accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated as part of a hedging relationship and the type of hedging relationship.

Derivatives that qualify and are designated for hedge accounting are classified as either hedges of the variability of expected future cash flows to be received or paid related to a recognized asset or liability (cash flow hedges) or hedges of the exposure to foreign currency of a net investment in a foreign operation (net investment hedges).

The Company also uses derivative contracts outside the hedging program to manage foreign currency risk associated with intercompany loans.

Subsequent Measurement

The change in fair value of components included in the effectiveness assessment of derivative instruments designated as cash flow hedges is recognized as a component of OCI and reclassified into earnings on a trade date basis in the period that the hedged transaction affects earnings. The change in fair value of components included in the effectiveness assessment of foreign currency contracts designated as net investment hedges is recorded in cumulative translation adjustments within AOCI and reclassified into earnings when the foreign operation is sold or substantially liquidated.
The change in fair value of derivative contracts intended to serve as economic hedges that are not designated as hedging instruments is reported as a component of earnings in the consolidated statements of operations.

Cash Flows Presentation

Cash flows from derivative instruments designated as net investment hedges and non-designated derivatives used to manage foreign currency risks associated with intercompany loans are classified as investing activities in the unaudited condensed consolidated statements of cash flows. Cash flows from all other derivative instruments are classified as operating activities in the consolidated statements of cash flows.

Fair Value Measurements

The Company performs fair value measurements defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at their fair values, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the assets or liabilities, such as inherent risk, transfer restrictions and risk of nonperformance.

In determining fair value measurements, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Assets and liabilities are categorized within a fair value hierarchy based upon the lowest level of input that is significant to the fair value measurement:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

The Company maintains various financial instruments recorded at cost in the consolidated balance sheets that are not required to be recorded at fair value. For cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities and due to affiliates, net, the carrying amount approximates fair value because of the short-term maturity of the instruments. See *Note 12. Fair Value of Financial Instruments* for disclosures related to the fair value of the Company's derivative instruments and long-term debt.

Foreign Currency

The Company's reporting currency is the U.S. dollar. Certain of the Company's subsidiaries maintain their records in local currencies other than the U.S. dollar, which are their functional currencies. When a subsidiary's local currency is considered its functional currency, the Company translates its assets and liabilities to U.S. dollars using exchange rates in effect at date of the financial statements and its revenue and expense accounts to U.S. dollars at average exchange rates for the period. Cumulative translation adjustments are reported in AOCI in stockholders' equity. Cumulative translation adjustments are reclassified from AOCI to earnings only when realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign subsidiary. Transaction gains and losses and changes in fair value of the Company's foreign exchange derivative contracts not accounted for under hedge accounting are included in results of operations as recognized.

Business Combinations and Acquisitions of Assets

The Company applies the definition of a business in ASC 805, Business Combinations to determine whether it is acquiring a business or a group of assets.

The Company accounts for its business combinations by recognizing in the financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interests in the acquiree at fair value at the acquisition date. The Company also recognizes and measures the goodwill acquired or a gain from a bargain purchase in the business combination and determines what information to disclose to enable users of an entity's financial statements to evaluate the nature and financial effects of the business combination. In addition, acquisition costs related to business combinations are expensed as incurred.

When the Company acquires a renewable energy business, the purchase price is allocated to (i) the acquired tangible assets and liabilities assumed, primarily consisting of land, plant and long-term debt, (ii) the identified intangible assets and liabilities, primarily consisting of the value of favorable and unfavorable rate PPAs, REC agreements, the licensing contracts and in-place value of market rate PPAs, (iii) non-controlling interests, and (iv) other working capital items based in each case on their fair values. The excess of the purchase price over the estimated fair value of net assets acquired is recorded as goodwill.

The Company generally uses independent appraisers to assist with the estimates and methodologies used such as a replacement cost approach, or an income approach or excess earnings approach. Factors considered by the Company in its analysis include considering current market conditions and costs to construct similar facilities. The Company also considers information obtained about each facility as a result of its pre-acquisition due diligence in estimating the fair value of the tangible and intangible assets and liabilities acquired or assumed. In estimating the fair value, the Company also establishes estimates of energy production, current in-place and market power purchase rates, tax credit arrangements and operating and maintenance costs. A change in any of the assumptions above, which are subjective, could have a significant impact on the results of operations.

The allocation of the purchase price directly affects the following items in the consolidated financial statements:

- The amount of purchase price allocated to the various tangible and intangible assets, liabilities and non-controlling interests on the balance sheet;
- The amounts allocated to the value of favorable and unfavorable rate PPAs and REC agreements are amortized to revenue over the remaining non-cancelable terms of the respective arrangement. The amounts allocated to all other tangible assets and intangibles are amortized to depreciation or amortization expense; and
- The period of time over which tangible and definite-lived intangible assets and liabilities are depreciated or amortized varies, and thus, changes in the amounts allocated to these assets and liabilities will have a direct impact on the Company's results of operations.

ASC 805 allows the acquirer to report provisional amounts and adjust them for a period of time up to one year after the acquisition date (the "measurement period") while the Company obtains information about the facts and circumstances that existed as of the acquisition date.

When an acquired group of assets does not constitute a business, the transaction is accounted for as an asset acquisition. The Company recognizes and measures the acquired assets based on the cost of the acquisitions, generally being the consideration transferred to the seller and typically includes the direct transaction costs related to the acquisition. The Company allocates the total cost of acquisition to the individual assets acquired or liabilities assumed based on their relative fair values generally similar to the allocation of the purchase price in a business combination. No goodwill is recognized in an asset acquisition.

Stock-Based Compensation

Stock-based compensation expense for all share-based payment awards to certain employees who provide services to the Company is based on the estimated grant-date fair value. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the award vesting term. For ratable awards, the Company recognizes compensation costs for all grants on a straight-line basis over the requisite service period of the entire award. The Company recognizes the effect of forfeitures in compensation costs when they occur.

Deferred Compensation Plan

The Company sponsors a retirement saving plan that qualifies as a deferred compensation plan under Section 401(k) of the Internal Revenue Code. Eligible U.S. employees may elect to defer a percentage of their qualified compensation for income tax purposes through payroll deductions, and the Company matches a percentage of the contributions based on employees' elective deferrals.

Recently Adopted Accounting Standards - Guidance Adopted in 2020

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, to provide financial statement users with more useful information about the current expected credit losses ("CECL"). This ASU changes how entities measure credit losses on financial instruments and the timing of when such losses are recognized by utilizing a lifetime expected credit loss measurement. The guidance is effective for fiscal years and interim periods within those years beginning after January 1, 2020. The Company early adopted ASU 2016-13, effective January 1, 2020, and did not result in a material impact on the allowance for doubtful accounts.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU amends the definition of a hosting arrangement and requires a customer in a cloud computing arrangement that is a service contract to follow the internal use software guidance in ASC 350-402 to determine which implementation costs to capitalize as assets. Capitalized implementation costs are amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The guidance became effective on January 1, 2020, with early adoption permitted. The adoption of ASU No. 2018-15 as of January 1, 2020 did not have an impact on the Company's unaudited condensed consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The amendments in this ASU require reporting entities to consider indirect interests held through related parties under common control for determining whether fees paid to decision makers and service provider are variable interests. These indirect interests should be considered on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required in U.S. GAAP). The guidance became effective January 1, 2020, with early adoption permitted. Entities are required to apply the amendments in this guidance retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The adoption of ASU No. 2018-17 as of January 1, 2020 did not have an impact on the Company's unaudited condensed consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides entities temporary optional guidance to ease potential accounting burdens to transition away from LIBOR or other reference rates that are expected to be discontinued to alternative reference rates. This ASU applies to all entities that have contracts, hedging relationships and other transactions affected by reference rate reform. The provisions in this ASU, among other things, simplify contract modification accounting and allow hedging relationships affected by reference rate reform to continue. ASU 2020-04 is effective upon issuance and entities may elect to apply the amendments prospectively through December 31, 2022. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the timing of electing available optional expedients.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, Income Taxes. The amendments also improve consistent application and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The guidance is effective on January 1, 2022, with early adoption permitted. The Company does not expect the effect of the new guidance to be material on its unaudited condensed consolidated financial statements.

3. ACQUISITIONS

Termosol Acquisition

On February 11, 2020, TERP Spanish Holdco, S.L.U., a wholly-owned subsidiary of the Company, completed the acquisition of a portfolio of two concentrated solar power ("CSP") facilities located in Spain with a combined nameplate capacity of approximately 100 megawatt ("MW") (Termosol 1 & 2) from NextEra Energy Spain Holdings B.V. (the "Termosol Acquisition"). The purchase price of the Termosol Acquisition, including working capital adjustments, was $126.9 million. The acquired facilities are regulated under the Spanish framework for renewable power, with approximately 18 years of remaining regulatory life. In connection with this acquisition, over 60 employees joined the Company the majority of whom perform in-house operations and maintenance ("O&M") services for the acquired facilities. The Company funded the purchase price of the Termosol Acquisition using a draw on the Company's senior secured revolving credit facility (the "Revolver") and cash available on hand.

The Company accounted for the Termosol Acquisition under the acquisition method of accounting for business combinations. Under this method, the total consideration transferred is allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values as of the date of the acquisition. The acquisition method of accounting requires extensive use of estimates and judgments to allocate the consideration transferred to the identifiable tangible and intangible assets acquired and liabilities assumed. The final accounting has not been completed since the evaluation necessary to assess the fair values of acquired assets and assumed liabilities is still in process. The provisional amounts for this business combination are subject to revision until these evaluations are completed. The additional information needed by the Company to finalize the measurement of these provisional amounts include, but not limited to, the settlement of the amount of net working capital acquired, credit spreads and other information necessary to estimate the fair value of non-recourse project debt, the assessment of the incremental borrowing rate for operating leases, and additional information to assess the discount rate factor used at the time of the acquisition. The provisional amounts for this business combination are subject to revision until these evaluations are completed.

The preliminary allocation of the acquisition-date fair values of assets and liabilities pertaining to the Termosol Acquisition as of September 30, 2020, was as follows:

(In thousands)	**As of February 11, 2020, reported at September 30, 2020**
Renewable energy facilities[1]	$ 477,269
Accounts receivable	33,242
Other assets	7,550
Intangible assets	183,655
Deferred income taxes	14,419
Goodwill[2]	40,862
Total assets acquired	756,997
Accounts payable, accrued expenses and other current liabilities	16,609
Long-term debt	468,812
Asset retirement obligations	22,609
Derivative liabilities	147,536
Operating lease liabilities	17,139
Other liabilities	5,900
Total liabilities assumed	678,605
Purchase price, net of cash and restricted cash acquired[3]	$ 78,392

(1) Includes $17.1 million operating lease right-of-use assets.

(2) The excess purchase price over the estimated fair value of net assets acquired of $40.9 million was recorded as goodwill and was assigned to the Regulated Solar and Wind segment. Goodwill is primarily attributable to expected synergies from the Company's growing portfolio in Spain and the acquired employee knowledge of the operation and maintenance of concentrated solar power facilities.

(3) The Company acquired cash and cash equivalents of $22.0 million and restricted cash of $26.5 million as of the acquisition date.

The acquired non-financial assets primarily represent estimates of the fair value of acquired renewable energy facilities and intangible assets from licensing contracts using the cost and income approach. The key inputs used to estimate fair value included forecasted power pricing, operational data, asset useful lives, and a discount rate factor reflecting current market conditions at the time of the Termosol Acquisition. These significant inputs were not observable in the market and thus represent Level 3 measurements (as defined in *Note 12. Fair Value of Financial Instruments*). Refer below for additional disclosures related to the acquired finite-lived intangible assets.

The results of operations of the acquired entities are included in the Company's consolidated results since the date of acquisition. The operating revenues and net income of the Termosol Acquisition reflected in the unaudited condensed consolidated statements of operations for the three months ended September 30, 2020 were $26.3 million and $0.7 million, respectively, and for the nine months ended September 30, 2020 were $61.0 million and $2.2 million, respectively.

Unaudited Pro Forma Supplementary Data

The unaudited pro forma supplementary data presented in the table below gives effect to the Termosol Acquisition, as if the transaction had occurred on January 1, 2019. The pro forma net loss includes adjustments to depreciation and amortization expense for the valuation of renewable energy facilities and intangible assets and excludes the impact of acquisition costs. The unaudited pro forma supplementary data is provided for informational purposes only and should not be construed to be indicative of the Company's results of operations had the acquisition been consummated on the date assumed or of the Company's results of operations for any future date.

	Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**
Total operating revenues, net	$ 830,129	$ 813,044
Net loss	(71,226)	(83,786)

Intangibles at Acquisition Date

The following table summarizes the estimated fair value and weighted average amortization period of the acquired intangible assets as of the acquisition date. The Company attributed intangible asset value to licensing contracts in-place from the acquired renewable energy facilities. These intangible assets are amortized on a straight-line basis over the estimated remaining useful lives of the facilities from the Company's acquisition date.

	As of February 11, 2020	
	Fair Value (In thousands)	**Weighted Average Amortization Period[1]**
Intangible assets - licensing contracts	$ 183,655	18 years

(1) For the purposes of this disclosure, the weighted average amortization period is determined based on a weighting of the individual intangible fair values against the total fair value.

WGL Acquisition

On September 26, 2019, TerraForm Arcadia Holdings, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company ("TerraForm Arcadia"), completed the acquisition of an approximately 320 MW distributed generation portfolio of renewable energy facilities in the United States ("U.S.") from subsidiaries of AltaGas Ltd., a Canadian corporation ("AltaGas"), for a purchase price of $720.0 million, plus $15.1 million for working capital (the "WGL Acquisition"). The WGL Acquisition was pursuant to a membership interest purchase agreement (the "Purchase Agreement") dated July 19, 2019, entered into by TerraForm Arcadia, WGL Energy Systems, Inc., a Delaware corporation ("WGL"), and WGSW, Inc., a Delaware corporation ("WGSW", and together with WGL, the "Sellers"), both subsidiaries of AltaGas (the "WGL Acquisition"). Pursuant to the Purchase Agreement, the ownership of certain projects for which the Sellers had not yet received the required third party consents or had not completed construction (the "Delayed Projects") were to be transferred to the Company once such third party consents were received or construction was completed, subject to certain terms and conditions. As of September 30, 2020, ownership of one Delayed Project remained to be transferred from the Sellers to the Company.

The Company funded the purchase price and the related initial costs of the WGL Acquisition with the net proceeds of the $475.0 million non-recourse senior secured term loan (the "Bridge Facility") and the remainder from draws on the Revolver. See *Note 9. Long-term Debt* for definitions and additional details.

The Company accounted for the WGL Acquisition under the acquisition method of accounting for business combinations. Under this method, the total consideration transferred is allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values as of the date of the acquisition. The acquisition method of accounting requires extensive use of estimates and judgments to allocate the consideration transferred to the identifiable tangible and intangible assets acquired and liabilities assumed. As of September 30, 2020, the purchase accounting for the WGL Acquisition has been finalized. The final adjustments to the purchase price allocation recorded during the nine months ended September 30, 2020 reflected changes to the provisional estimates for: (i) the transfer of certain Delayed Projects to the Company, (ii) the assessment of the incremental borrowing rate for operating leases and (iii) the assessment of asset retirement obligation related to all projects acquired, and iv) the discount rates applied to certain projects cashflows.

The final allocation of the acquisition-date fair values of assets, liabilities and redeemable non-controlling interests pertaining to this business combination as of September 30, 2020 were as follows:

(In thousands)	As of September 26, 2019 reported at December 31, 2019	Adjustments[1]	As of September 26, 2019 reported at September 30, 2020
Renewable energy facilities in service[2]	$ 581,717	$ 20,898	$ 602,615
Intangible assets	168,825	(7,644)	161,181
Accounts receivable	13,160	—	13,160
Prepaid expenses and other assets	9,734	(1)	9,733
Total assets acquired	773,436	13,253	786,689
Accounts payable, accrued expenses and other current liabilities	6,806	(1,913)	4,893
Asset retirement obligations	27,338	(11,840)	15,498
Operating lease liabilities	21,663	3,402	25,065
Other liabilities	7,650	—	7,650
Total liabilities assumed	63,457	(10,351)	53,106
Non-controlling interests[3]	3,028	—	3,028
Purchase price, net of cash and restricted cash acquired[4]	706,951	23,604	730,555
Deposit on acquisitions	24,831	(22,183)	2,648
Total cash paid for the WGL Acquisition, net of cash acquired[5]	$ 731,782	$ 1,421	$ 733,203

(1) The adjustments for the period were related to opening balance sheet updates for asset retirement obligations, operating lease liabilities and the transfer of certain Delayed Project during the nine months ended September 30, 2020. See above for additional details.
(2) Includes $26.0 million operating lease right-of-use assets.
(3) The fair value of the non-controlling interests was determined using an income approach representing the best indicator of fair value and was supported by a discounted cash flow technique.
(4) The Company acquired cash and cash equivalents of $3.4 million as of the acquisition date.
(5) The adjustment to the amount of cash paid for the period represents additional payment made by the Company in relation to the net working capital acquired.

The acquired non-financial assets primarily represent an estimate of the fair value of the acquired renewable energy facilities and intangible assets from PPAs using the cost and income approach. Key inputs used to estimate fair value included forecasted power pricing, operational data, asset useful lives and a discount rate factor reflecting current market conditions at the time of the acquisition. These significant inputs are not observable in the market and thus represent Level 3 measurements, as defined in *Note 12. Fair Value of Financial Instruments*. Refer below for additional disclosures related to the acquired finite-lived intangible assets.

The results of operations from the acquired entities are included in the Company's consolidated results since the date of acquisition. The operating revenues and net income related to the WGL Acquisition reflected in the consolidated statements of operations for the three months ended September 30, 2020 were $23.6 million and $13.7 million, respectively, and for the nine months ended September 30, 2020 were $63.6 million and $20.8 million, respectively.

Intangibles at Acquisition Date

The following table summarizes the estimated fair values and the weighted average amortization periods of the acquired intangible assets and assumed intangible liabilities as of the acquisition date. The Company attributed the intangible asset values to favorable rate revenue contracts and PPAs in-place from renewable energy facilities and the intangible liabilities to unfavorable rate revenue contracts.

	WGL Acquisition	
	Fair Value (In thousands)	**Weighted Average Amortization Period[1]**
Favorable rate revenue contracts	$ 28,800	16 years
In-place value of market rate revenue contracts	132,381	15 years
Unfavorable rate revenue contracts	7,650	2 years

(1) For the purposes of this disclosure, the weighted average amortization periods are determined based on a weighting of the individual intangible fair values against the total fair value for each major intangible asset and liability class.

Unaudited Pro Forma Supplementary Data

The unaudited pro forma supplementary data presented in the table below gives effect to the WGL Acquisition, as if the transaction had occurred on January 1, 2019. The pro forma net loss includes interest expense related to incremental borrowings used to finance the transaction and adjustments to depreciation, accretion and amortization expense for the valuation of renewable energy facilities and intangible assets, and excludes the impact of acquisition costs. The unaudited pro forma supplementary data is provided for informational purposes only and should not be construed to be indicative of the Company's results of operations had the acquisition been consummated on the date assumed or of the Company's results of operations for any future date.

(In thousands)	**Nine Months Ended September 30, 2019**
Total operating revenues, net	$ 790,403
Net loss	(71,099)

4. REVENUE

The following table presents the Company's operating revenues, net and disaggregated by revenue source:

	Three Months Ended September 30,	
(In thousands)	**2020**	**2019**
PPA rental income	$ 95,986	$ 104,957
Commodity derivatives	18,660	10,453
PPA and market energy revenue	61,860	56,772
Capacity revenue from remuneration programs[1]	82,555	54,772
Amortization of favorable and unfavorable rate revenue contracts, net	(9,658)	(9,791)
Energy revenue	249,403	217,163
Incentive revenue	46,767	36,645
Operating revenues, net	$ 296,170	$ 253,808

(In thousands)	Nine Months Ended September 30, 2020	2019
PPA rental income	$ 286,348	$ 303,067
Commodity derivatives	26,424	42,560
PPA and market energy revenue	181,060	166,760
Capacity revenue from remuneration programs[1]	239,297	154,913
Amortization of favorable and unfavorable rate revenue contracts, net	(29,645)	(28,645)
Energy revenue	703,484	638,655
Incentive revenue	116,777	95,851
Operating revenues, net	$ 820,261	$ 734,506

(1) Represents the remuneration related on the Company's investments in renewable energy facilities in Spain.

Contract balances and performance obligations

The Company recognizes accounts receivable when its right to consideration from the performance of services becomes unconditional. As of September 30, 2020 and December 31, 2019, the Company's receivable balances related to PPA contracts with solar and wind customers were approximately $156.7 million and $104.1 million, respectively. Trade receivables for PPA contracts are reflected within accounts receivable, net in the consolidated balance sheets. The Company typically receives payment within 30 days for invoiced PPA revenue.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and money market funds with original maturity periods of three months or less when purchased. As of September 30, 2020 and December 31, 2019, cash and cash equivalents included $160.5 million and $138.5 million, respectively, of unrestricted cash held at project-level subsidiaries, which was available for project expenses but not available for corporate use.

Reconciliation of Cash and Cash Equivalents as Presented in the Unaudited Condensed Consolidated Statement of Cash Flows

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets to the total of the same such amounts shown in the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2020:

(In thousands)	September 30, 2020	December 31, 2019
Cash and cash equivalents	$ 226,146	$ 237,480
Restricted cash - current	47,567	35,657
Restricted cash - non-current	67,242	76,363
Cash, cash equivalents and restricted cash shown in the unaudited condensed consolidated statement of cash flows	$ 340,955	$ 349,500

As discussed in *Note 9. Long-term Debt*, the Company was in default under certain of its non-recourse financing agreements as of the date of the issuance of the financial statements for the nine months ended September 30, 2020, and for the year ended December 31, 2019. As a result, the Company reclassified $10.2 million and $11.0 million of non-current restricted cash to current as of September 30, 2020 and December 31, 2019, respectively, consistent with the corresponding debt classification, as the restrictions that required the cash balances to be classified as non-current restricted cash were driven by the financing agreements.

6. RENEWABLE ENERGY FACILITIES

Renewable energy facilities, net consisted of the following:

(In thousands)	September 30, 2020	December 31, 2019
Renewable energy facilities in service, at cost[1]	$ 9,228,998	$ 8,584,243
Less: Accumulated depreciation	(1,508,354)	(1,191,056)
Renewable energy facilities in service, net	7,720,644	7,393,187
Construction in progress - renewable energy facilities	22,030	12,274
Total renewable energy facilities, net	$ 7,742,674	$ 7,405,461

(1) Includes $304.7 million and $288.3 million right-of-use assets related to operating lease obligations as of September 30, 2020 and December 31, 2019, respectively.

Depreciation expense related to renewable energy facilities was $106.9 million and $299.2 million for the three and nine months ended September 30, 2020, respectively, as compared to $84.1 million and $240.0 million for the same periods in the prior year.

Repowering Activities

During the nine months ended September 30, 2020, the Company committed to a plan to repower two wind power plants in New York with a combined nameplate capacity of 160 MW by replacing certain components of the wind turbines with newer equipment while preserving the existing towers, foundation and balance of plant. The Company views repowering activities as opportunities to increase efficiency and extend the useful lives of existing renewable energy facilities. The Company revised the estimated useful lives of certain components of the renewable energy facilities that will be replaced with a net carrying amount of $29.3 million and accelerated the recognition of the depreciation expense of the related assets up to their expected removal date throughout September 2021. During the three and nine months ended September 30, 2020, the Company recorded $9.7 million in accelerated depreciation in the unaudited condensed consolidated statements of operations.

Impairment Considerations

During the nine months ended September 30, 2020, the Company entered into a purchase and sale agreement to sell 40% interest in four wind projects located in the United States for a consideration of $264.0 million net of working capital adjustments. The Company evaluated whether events or circumstances had changed such that it would indicate it is more likely than not that the related renewable energy facilities were impaired and concluded that an impairment indicator existed. As a result, the Company performed a recoverability test using undiscounted cash flow projections for each of the four wind projects. The Company determined that the expected undiscounted cash flows were greater than the net carrying amount of the related renewable energy facilities of $1.16 billion as of September 30, 2020, and did not record any impairment losses. The key estimates used in the recoverability test included the forecasted electricity-generating production of the renewable energy facilities and the forward electricity price curves based on sales in the respective markets.

7. INTANGIBLE ASSETS, NET AND GOODWILL

The following table presents the gross carrying amount, accumulated amortization and net book value of intangibles as of September 30, 2020:

(In thousands, except weighted average amortization period)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Licensing contracts	$ 997,942	$ (137,587)	$ 860,355
Favorable rate revenue contracts	746,120	(230,166)	515,954
In-place value of market rate revenue contracts	669,710	(156,140)	513,570
Total intangible assets, net	$ 2,413,772	$ (523,893)	$ 1,889,879
Unfavorable rate revenue contracts	$ 53,420	$ (43,335)	$ 10,085
Total intangible liabilities, net[1]	$ 53,420	$ (43,335)	$ 10,085

(1) The Company's intangible liabilities are classified within Other liabilities in the unaudited condensed consolidated balance sheets.

The following table presents the gross carrying amount, accumulated amortization and net book value of intangibles as of December 31, 2019:

(In thousands, except weighted average amortization period)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Licensing contracts	$ 765,451	$ (81,647)	$ 683,804
Favorable rate revenue contracts	745,784	(195,287)	550,497
In-place value of market rate revenue contracts	688,832	(129,841)	558,991
Total intangible assets, net	$ 2,200,067	$ (406,775)	$ 1,793,292
Unfavorable rate revenue contracts	$ 48,420	$ (32,556)	$ 15,864
Total intangible liabilities, net[1]	$ 48,420	$ (32,556)	$ 15,864

(1) The Company's intangible liabilities are classified within Other liabilities in the unaudited condensed consolidated balance sheets.

Amortization expense related to concessions and licensing contracts is reflected in the unaudited condensed consolidated statements of operations within depreciation, accretion and amortization expense. During the three and nine months ended September 30, 2020, amortization expense related to licensing contacts was $17.6 million and $50.1 million, respectively, as compared to $16.9 million and $50.1 million for the same periods in the prior year.

Amortization expense related to favorable rate revenue contracts is reflected in the unaudited condensed consolidated statements of operations as a reduction of operating revenues, net. Amortization related to unfavorable rate revenue contracts is reflected in the unaudited condensed consolidated statements of operations as an increase to operating revenues, net. During the three and nine months ended September 30, 2020, net amortization expense related to favorable and unfavorable rate revenue contracts resulted in a reduction of operating revenues, net of $9.6 million and $29.6 million, respectively, as compared to $9.8 million and $28.6 million, net for the same periods in the prior year.

Amortization expense related to the in-place value of market rate revenue contracts is reflected in the unaudited condensed consolidated statements of operations within depreciation, accretion and amortization expense. During the three and nine months ended September 30, 2020, amortization expense related to the in-place value of market rate revenue contracts was $8.2 million and $26.3 million, respectively, compared to $6.8 million and $19.7 million for the same periods in the prior year.

Goodwill

Goodwill represents the excess of the consideration transferred and fair value of the non-controlling interests over the fair values of assets acquired and liabilities assumed from business combinations, and reflects the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill balance is not deductible for income tax purposes.

The following table presents the activity of the goodwill balance for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**
Beginning balance	$ 127,952	$ 120,553
Goodwill resulting from business combinations[1]	40,862	—
Adjustments during the period[2]	—	32,283
Foreign exchange translation adjustments	8,458	(7,220)
Ending balance	$ 177,272	$ 145,616

(1) Represents the excess purchase price over the estimated fair value of net assets acquired from the Termosol Acquisition. See *Note 3 Acquisitions* for additional details.
(2) Represents the adjustments to the goodwill balance arising from the revision of the provisional accounting of the purchase price allocation related to the 2018 Saeta acquisition.

8. VARIABLE INTEREST ENTITIES

The Company assesses entities for consolidation in accordance with ASC 810. The Company consolidates variable interest entities ("VIEs") in renewable energy facilities when the Company is determined to be the primary beneficiary. VIEs are entities that lack one or more of the characteristics of a voting interest entity ("VOE"). The Company has a controlling financial interest in a VIE when its variable interest(s) provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The VIEs own and operate renewable energy facilities in order to generate contracted cash flows. The VIEs were funded through a combination of equity contributions from the owners and non-recourse project-level debt. The Company determines whether it is the primary beneficiary of a VIE by considering qualitative and quantitative factors, including, but not limited to: the activities that most significantly impact the VIE's economic performance and which party controls such activities, the obligation or likelihood for the Company or other interests to provide financial support to the VIE, consideration of the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders.

VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Company has a majority voting interest in a voting interest entity, the entity is consolidated.

For consolidated VIEs, the Company presented on its consolidated balance sheets, to the extent material, the assets of its consolidated VIEs that can only be used to settle specific obligations of the consolidated VIE, and the liabilities of its consolidated VIEs for which creditors do not have recourse to the Company's general assets outside of the VIE.

The carrying amounts and classification of the consolidated assets and liabilities of the VIEs included in the Company's unaudited condensed consolidated balance sheets were as follows:

(In thousands)	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 58,837	$ 44,083
Restricted cash	7,836	10,562
Accounts receivable, net	36,299	39,804
Derivative assets, current	2,014	2,461
Prepaid expenses	5,635	3,466
Other current assets	17,185	21,228
Total current assets	127,806	121,604
Renewable energy facilities, net	3,087,174	3,188,508
Intangible assets, net	652,856	690,594
Restricted cash	4,357	4,454
Derivative assets	45,237	56,852
Other assets	6,526	7,061
Total assets	$ 3,923,956	$ 4,069,073
Liabilities		
Current liabilities:		
Current portion of long-term debt and financing lease obligations	$ 72,972	$ 55,089
Accounts payable, accrued expenses and other current liabilities	34,505	42,685
Derivative liabilities, current	1,480	449
Total current liabilities	108,957	98,223
Long-term debt and financing lease obligations, less current portion	1,125,132	932,862
Operating lease obligations, less current portion	138,712	138,816
Asset retirement obligations	117,018	116,159
Derivative liabilities	1,595	894
Other liabilities	43,262	41,813
Total liabilities	$ 1,534,676	$ 1,328,767

The amounts shown in the table above exclude intercompany balances that are eliminated upon consolidation. All of the assets in the table above are restricted for the settlement of the VIE obligations and all the liabilities in the table above can only be settled by using VIE resources.

9. LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands, except interest rates)	September 30, 2020	December 31, 2019	Interest Type	Interest Rate (%)[1]	Financing Type
Corporate-level long-term debt[2]:					
Senior Notes due 2023	$ 500,000	$ 500,000	Fixed	4.25	Senior notes
Senior Notes due 2028	700,000	700,000	Fixed	5.00	Senior notes
Senior Notes due 2030	700,000	700,000	Fixed	4.75	Senior notes
Revolver[3]	109,000	—	Variable	2.16	Revolving loan
Non-recourse long-term debt:					
Permanent financing	4,650,687	3,854,386	Blended[4]	4.79[6]	Term debt / Senior notes
Bridge Facility[5]	181,080	474,550	Variable	6.76	Term debt
Financing lease obligations	64,997	59,533	Imputed	5.50[6]	Financing lease obligations
Total principal due for long-term debt and financing obligations	6,905,764	6,288,469		3.42[6]	
Unamortized discounts and premiums, net	702	(3,509)			
Deferred financing costs, net	(54,136)	(49,578)			
Less: current portion of long-term debt and financing lease obligations	(678,672)	(441,951)			
Long-term debt and financing lease obligations, less current portion	$ 6,173,658	$ 5,793,431			

(1) As of September 30, 2020.
(2) Represents the debt issued by the Company and guaranteed by Terra LLC and certain subsidiaries of Terra Operating other than non-recourse subsidiaries as defined in the relevant debt agreements (except for certain unencumbered non-recourse subsidiaries).
(3) Represents the Terra Operating senior secured revolving credit facility with a limit of $800.0 million that is available for revolving loans and letters of credits and matures in October 2022.
(4) Includes fixed rate debt and variable rate debt. As of September 30, 2020, 47% of this balance had a fixed interest rate and the remaining 53% of the balance had a variable interest rate. The Company entered into interest rate swap agreements to fix the interest rates of a majority of the variable rate permanent financing non-recourse debt (see *Note 11. Derivatives*).
(5) The Bridge Facility was obtained to fund a portion of the consideration paid for the WGL Acquisition and matures on December 31, 2020. The balance is included within current liabilities in the unaudited condensed consolidated balance sheets.
(6) Represents the weighted average interest rate as of September 30, 2020.

Non-recourse Project Financing

Certain subsidiaries of the Company have incurred long-term non-recourse debt obligations related to the renewable energy facilities that those subsidiaries own directly or indirectly. The indebtedness of these subsidiaries is typically secured by the renewable energy facilities or equity interests in subsidiaries that directly or indirectly hold renewable energy facilities with no recourse to TERP NY, Terra LLC or Terra Operating other than limited or capped contingent support obligations, which in aggregate are not considered material to the Company’s business and financial condition. In connection with these financings and in the ordinary course of its business, the Company and its subsidiaries observe formalities and operating procedures to maintain each of their separate existence and can readily identify each of their separate assets and liabilities as separate and distinct from each other. As a result, these subsidiaries are legal entities that are separate and distinct from each of TERP NY, Terra LLC, Terra Operating and the guarantors under the Senior Notes due 2023, the Senior Notes due 2028, the Senior Notes due 2030 and the Revolver.

United States Project Financings

On September 22, 2020, one of the Company’s subsidiaries entered into a new non-recourse debt financing agreement whereby it issued $296.4 million of 3.38% senior notes secured by a portfolio of approximately 250.0 MW of distributed generation facilities located in the U.S. The Company used the net proceeds of this financing to repay a portion of the Bridge

Facility. The senior notes mature on December 31, 2043, and amortize on an approximately twenty-three year sculpted amortization schedule.

On March 26, 2020, one of the Company's subsidiaries entered into a new non-recourse debt financing agreement whereby it issued $246.0 million of 3.28% senior notes secured by a portfolio of approximately 218.0 MW utility-scale wind power plants located in the U.S. The Company used the net proceeds of this financing to (i) redeem, in full, the outstanding balance of the non-recourse project term debt previously incurred and secured by the subsidiary's assets, of which $215.2 million remained outstanding plus accrued and unpaid interest, (ii) redeem, in full, derivative liabilities related to interest rate swaps with the hedge counterparties of which $16.3 million remained outstanding, and (iii) pay for the fees and expenses related to the issuance. As a result of the extinguishment of the prior project-level debt, the Company recognized a $3.6 million loss on modification and extinguishment of debt during the nine months ended September 30, 2020 representing the write-off of unamortized debt discount and deferred financing costs as of the redemption date. The senior secured notes mature on June 30, 2037, and amortize on a seventeen-year amortization schedule.

Spain Project Financing

On June 30, 2020, two of the Company's subsidiaries completed a €483.6 million refinancing agreement (equivalent to approximately $540.0 million as of the closing date) of certain non-recourse project debt previously incurred and secured by the 100.0 MW utility-scale CSP facilities that were acquired in connection with the Termosol Acquisition as discussed in *Note 3. Acquisitions* (the "CSP Loans"). The CSP Loans comprise fixed and variable tranches bearing an average interest per annum equal to 2.77% and amortize on a sculpted amortization schedule over their respective maturity dates through December 2037. The Company entered into interest rate swap agreements with counterparties to hedge approximately 80% of the cash flows associated with the variable tranches, paying a fixed rate and in return, the counterparties agreed to pay the variable interest payments to the lenders. The Company used the net proceeds of the refinancing for general corporate purposes.

Non-recourse Debt Defaults

As of September 30, 2020 and December 31, 2019, the Company reclassified $154.3 million and $169.0 million, respectively, of non-recourse long-term indebtedness, net of unamortized deferred financing costs and debt discounts, to current in the unaudited condensed consolidated balance sheets due to defaults remaining as of the respective financial statements issuance dates. The defaults as of September 30, 2020 and December 31, 2019 primarily consisted of indebtedness of the Company's solar renewable energy facility in Chile. The Company continues to amortize deferred financing costs and debt discounts over the maturities of the respective financing agreements as before the violations, since the Company believes there is a reasonable likelihood that it will be, in due course, able to successfully negotiate waivers with the lenders and/or cure existing defaults. The Company's management based this conclusion on (i) its past history of obtaining waivers and/or forbearance agreements with lenders, (ii) the nature and existence of active negotiations between the Company and the respective lenders to secure waivers, (iii) the Company's timely servicing of these debt instruments, and (iv) the fact that no non-recourse financing has been accelerated to date and no project-level lender has notified the Company of such lenders election to enforce project security interests.

See *Note 5. Cash and Cash Equivalents* for discussion of corresponding restricted cash reclassifications to current as a result of these defaults.

Indebtedness Assumed on Acquisition

In connection with the Termosol Acquisition, the Company assumed $468.8 million of project-level debt secured by the acquired renewable energy facilities, which initially matured on December 31, 2036 and bore an average interest rate per annum of 4.7%. As discussed above, under "Spain Project Financing" on June 30, 2020, the Company entered into an agreement to refinance and extend the maturity of the acquired debt.

Maturities

The aggregate contractual principal payments of long-term debt due after September 30, 2020, excluding the amortization of debt discounts, premiums and deferred financing costs, as stated in the financing agreements, are as follows:

(In thousands)	**Remainder of 2020[2]**	**2021**	**2022**	**2023**	**2024**	**Thereafter**	**Total**
Maturities of long-term debt[1]	$ 303,855	$ 333,391	$ 328,826	$ 944,197	$ 453,562	$4,541,933	$ 6,905,764

(1) Represents the contractual principal payment due dates for the Company's long-term debt and does not reflect the reclassification of $154.3 million of long-term debt, net of unamortized deferred financing costs of $5.0 million, to current due to debt defaults that existed at September 30, 2020 (see above for additional details).
(2) Includes the $181.1 million Bridge Facility maturing on December 31, 2020. The Company intends to complete a refinancing of the outstanding balance of the Bridge Facility on a long-term basis prior to maturity.

10. INCOME TAXES

The income tax expense (benefit) was calculated based on the income and losses before income tax consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except effective tax rate)	**2020**	**2019**	**2020**	**2019**
Income (loss) before income tax expense	$ 2,778	$ (60,801)	$ (64,172)	$ (112,167)
Income tax expense[1]	1,846	1,512	2,410	3,030
Effective tax rate	66.5 %	(2.5)%	(3.8)%	(2.7)%

(1) The income tax expense was related to the tax effects on the Company's operations in international jurisdictions and Puerto Rico.

The overall effective tax rate for the three and nine months ended September 30, 2020 and 2019 was different than the statutory rate of 21% and was primarily due to U.S. losses not subject to tax. As a limited liability company, the Company's U.S. taxable losses are allocated to its member. Therefore, there is no U.S. federal or state tax provision or liability for U.S. federal or state income taxes included in the Company's condensed and consolidated financial statements except for certain foreign entities that are subject to corporate tax.

As of September 30, 2020, and December 31, 2019, the Company had not identified any uncertain tax positions for which a liability was required under ASC 740-10. The Company expects to complete its analysis on tax positions related to the Termosol Acquisition within the measurement period.

11. DERIVATIVES

As part of its risk management strategy, the Company entered into derivative instruments, which include interest rate swaps, foreign currency contracts and commodity contracts to mitigate interest rate, foreign currency and commodity price exposures. If the Company elects to do so and if the instrument meets the criteria specified in ASC 815, *Derivatives and Hedging*, the Company designates its derivative instruments as either cash flow hedges or net investment hedges. The Company enters into interest rate swap agreements in order to hedge the variability of the expected future cash interest payments. Foreign currency contracts are used to reduce risks arising from the change in fair value of certain foreign currency denominated assets and liabilities. The objective of these practices is to minimize the impact of foreign currency fluctuations on operating results. The Company also enters into commodity contracts to hedge price variability inherent in energy sales arrangements. The objectives of the commodity contracts are to minimize the impact of variability in spot energy prices and stabilize estimated revenue streams. The Company does not use derivative instruments for trading or speculative purposes.

As of September 30, 2020 and December 31, 2019, the fair values of the following derivative instruments were included in the respective balance sheet captions indicated below:

Fair Value of Derivative Instruments[1]

(In thousands)	Derivatives Designated as Hedging Instruments: Interest Rate Swaps	Derivatives Designated as Hedging Instruments: Foreign Currency Contracts	Derivatives Designated as Hedging Instruments: Commodity Contracts	Derivatives Not Designated as Hedging Instruments: Interest Rate Swaps	Derivatives Not Designated as Hedging Instruments: Foreign Currency Contracts	Derivatives Not Designated as Hedging Instruments: Commodity Contracts	Gross Derivatives	Counter party Netting[2]	Net Derivatives
As of September 30, 2020									
Derivative assets, current	$ —	$ —	$ 799	$ —	$ 9,227	$ 3,275	$ 13,301	$ (5,909)	$ 7,392
Derivative assets	—	—	27,394	—	—	17,843	45,237	—	45,237
Total assets	$ —	$ —	$ 28,193	$ —	$ 9,227	$ 21,118	$ 58,538	$ (5,909)	$ 52,629
Derivative liabilities, current portion	$16,197	$ —	$ —	$ 39,020	$ 5,909	$ 288	$ 61,414	$ (5,909)	$ 55,505
Derivative liabilities	59,737	—	—	129,285	—	—	189,022	—	189,022
Total liabilities	$75,934	$ —	$ —	$168,305	$ 5,909	$ 288	$ 250,436	$ (5,909)	$ 244,527
As of December 31, 2019									
Derivative assets, current	$ —	$ 349	$ 1,040	$ —	$ 8,092	$ 7,279	$ 16,760	$ (941)	$ 15,819
Derivative assets	809	24	33,269	—	504	23,583	58,189	(472)	57,717
Total assets	$ 809	$ 373	$ 34,309	$ —	$ 8,596	$ 30,862	$ 74,949	$ (1,413)	$ 73,536
Derivative liabilities, current portion	$12,046	$ 631	$ —	$ 21,923	$ 310	$ —	$ 34,910	$ (941)	$ 33,969
Derivative liabilities	41,605	315	—	59,412	534	—	101,866	(472)	101,394
Total liabilities	$53,651	$ 946	$ —	$ 81,335	$ 844	$ —	$ 136,776	$ (1,413)	$ 135,363

(1) Fair value amounts are shown before the effect of counterparty netting adjustments.
(2) Represents the netting of derivative exposures covered by qualifying master netting arrangements.

As of September 30, 2020 and December 31, 2019, the Company had posted letters of credit in the amount of $15.0 million, as collateral related to certain commodity contracts. Certain derivative contracts contain provisions providing the counterparties a lien on specific assets as collateral. There was no cash collateral received or pledged as of September 30, 2020 and December 31, 2019 related to the Company's derivative transactions.

The Company is subject to credit risk related to its derivatives to the extent the hedge counterparties may be unable to meet the terms of the contractual arrangements. The maximum exposure to loss due to credit risk if counterparties fail completely to perform according to the terms of the contracts would generally equal the fair value of derivative assets presented in the above table. The Company seeks to mitigate credit risk by transacting with a group of creditworthy financial institutions and through the use of master netting arrangements.

The Company elected to present all derivative assets and liabilities on a net basis on the balance sheets as a right to set-off exists. The Company enters into International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreements with its counterparties. An ISDA Master Agreement is an agreement that can govern multiple derivative transactions between two counterparties that typically provides for the net settlement of all, or a specified group, of these derivative transactions through a single payment, and in a single currency, as applicable. A right to set-off typically exists when the Company has a legally enforceable ISDA Master Agreement. No amounts were netted for commodity contracts as of September 30, 2020 or December 31, 2019, as each of the commodity contracts were in a gain position.

The following table presents the notional amounts of derivative instruments as of September 30, 2020 and December 31, 2019:

(In thousands, except for GWhs)	Notional Amount as of September 30, 2020	Notional Amount as of December 31, 2019
Derivatives designated as hedging instruments:		
Cash flow hedges:		
Interest rate swaps (USD)	260,473	441,628
Interest rate swaps (CAD)	130,124	138,575
Interest rate swaps (EUR)	293,108	310,721
Commodity contracts (GWhs)	4,857	5,360
Net investment hedges:		
Foreign currency contracts (CAD)	—	94,100
Foreign currency contracts (EUR)	—	199,750
Derivatives not designated as hedging instruments:		
Interest rate swaps (USD)	10,773	11,399
Interest rate swaps (EUR)[1]	1,024,430	745,719
Foreign currency option contracts (EUR)[2, 3]	—	625,200
Foreign currency contracts (EUR)[2]	—	118,550
Commodity contracts (GWhs)	6,860	7,610

(1) Represents the notional amount of the interest rate swaps at Saeta to economically hedge the interest rate payments on non-recourse debt. The Company did not designate these derivatives as hedging instruments per ASC 815 as of the respective balance sheet dates.
(2) Represents the notional amount of foreign currency contracts used to economically hedge portions of the Company's foreign exchange risk associated with Euro-denominated intercompany loans that are not of long-term investment nature. The Company did not designate these derivatives as hedging instruments per ASC 815 as of September 30, 2020 and December 31, 2019.
(3) As of September 30, 2020, the Company had outstanding foreign exchange option contracts to buy and sell €589 million with the same maturity profile, to hedge a portion of the foreign currency risk related to the Company's investment in Spain.

Gains and losses on derivatives not designated as hedging instruments for the three and nine months ended September 30, 2020 and 2019 consisted of the following:

(In thousands)	Location of Loss (Gain) in the Statements of Operations	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Interest rate swaps	Interest expense, net	$ 12,158	$ 20,911	$ 26,745	$ 50,189
Foreign currency contracts	Gain on foreign currency exchange, net	365	(19,667)	(4,019)	(39,596)
Commodity contracts	Operating revenues, net	504	307	(4,091)	(13,311)

Gains and losses recognized related to interest rate swaps, foreign currency contracts and commodity derivative contracts designated as hedging instruments for the three and nine months ended September 30, 2020 and 2019 consisted of the following:

Derivatives in Cash Flow and Net Investment Hedging Relationships (In thousands)	Three Months Ended September 30, — (Loss) Gain Included in the Assessment of Effectiveness Recognized in OCI, net of taxes[1] 2020	2019	Location of Amount Reclassified from AOCI into Income	Loss (Gain) Included in the Assessment of Effectiveness Reclassified from AOCI into Income[2] 2020	2019
Interest rate swaps	$ (1,712)	$ (14,722)	Interest expense, net	$ 3,011	$ 128
Foreign currency contracts	—	11,915	Gain on foreign currency exchange, net	—	—
Commodity contracts	(59)	(6,760)	Operating revenues, net	(330)	4,794
Total	$ (1,771)	$ (9,567)		$ 2,681	$ 4,922

(1) Net of $0.7 million tax benefit for the three months ended September 30, 2020. Net of $2.5 million tax benefit was recorded for the three months ended September 30, 2019.
(2) No tax expense or benefit was recorded for the three months ended September 30, 2020 and 2019.

Derivatives in Cash Flow and Net Investment Hedging Relationships (In thousands)	Nine Months Ended September 30, (Loss) Gain Included in the Assessment of Effectiveness Recognized in OCI, net of taxes[1] 2020	2019	Location of Amount Reclassified from AOCI into Income	Loss (Gain) Included in the Assessment of Effectiveness Reclassified from AOCI into Income[2] 2020	2019
Interest rate swaps	$ (41,479)	$ (41,336)	Interest expense, net	$ 7,262	$ (867)
Foreign currency contracts	20,890	20,191	Gain on foreign currency exchange, net	—	—
Commodity contracts	(594)	(2,605)	Operating revenues, net	(3,499)	4,116
Total	$ (21,183)	$ (23,750)		$ 3,763	$ 3,249

(1) Net of $5.5 million tax benefit for the nine months ended September 30, 2020. Net of $2.5 million tax benefit was recorded for the nine months ended September 30, 2019.
(2) No tax expense or benefit was recorded for the nine months ended September 30, 2020 and 2019.

Derivatives Designated as Hedging Instruments

Interest Rate Swaps

The Company has interest rate swap agreements to hedge certain variable rate non-recourse debt. These interest rate swaps qualify for hedge accounting and were designated as cash flow hedges. Under the interest rate swap agreements, the Company pays a fixed rate and the counterparties to the agreements pay a variable interest rate. The change in the fair value of the components included in the effectiveness assessment of these derivatives is initially reported in accumulated other comprehensive income ("AOCI") and subsequently reclassified to earnings in the periods when the hedged transactions affect earnings (the payment of interest). The amounts deferred in AOCI and reclassified into earnings during the three and nine months ended September 30, 2020 and 2019 related to these interest rate swaps are provided in the tables above. The loss expected to be reclassified into earnings over the next twelve months is approximately $13.9 million. The maximum term of outstanding interest rate swaps designated as hedging instruments is 19 years.

Foreign Currency Contracts

The Company uses foreign currency contracts to hedge portions of its net investment positions in certain subsidiaries with Euro ("€") and Canadian dollar ("C$") functional currencies and to manage its foreign exchange risk. For instruments that are designated and qualify as hedges of net investment in foreign operations, the effective portion of the net gains or losses attributable to changes in exchange rates are recorded in foreign currency translation adjustments within AOCI. The recognition in earnings of amounts previously recorded in AOCI is limited to circumstances such as complete or substantial liquidation of the net investment in the hedged foreign operation.

Cash flows from derivative instruments designated as net investment hedges are classified as investing activities in the unaudited condensed consolidated statements of cash flows.

There were no foreign currency contracts designated as of September 30, 2020. As of December 31, 2019, the total notional amount of foreign currency contracts designated as net investment hedges was €200 million and C$94.1 million. The maturity dates of these derivative instruments designated as net investment hedges range from 3 months to 2 years.

Commodity Contracts

The Company has two long-dated and physically-delivered commodity contracts that hedge variability in cash flows associated with the sales of power from certain wind renewable energy facilities located in Texas. One of these commodity contracts qualifies for hedge accounting and is designated as a cash flow hedge. The change in the fair value of the components included in the effectiveness assessment of this derivative is initially reported in AOCI and subsequently reclassified to earnings in the periods when the hedged transactions affect earnings (the sale of electricity). The amounts deferred in AOCI and reclassified into earnings during the three and nine months ended September 30, 2020 and 2019 related to this commodity contract are provided in the tables above. The gain expected to be reclassified into earnings over the next twelve months is approximately $1.2 million. The maximum term of the outstanding commodity contract designated as a hedging instrument is 7 years.

Derivatives Not Designated as Hedging Instruments

Interest Rate Swaps

The Company has interest rate swap agreements that economically hedge the cash flows for non-recourse debt. These interest rate swaps pay a fixed rate and the counterparties to the agreements pay a variable interest rate. The changes in fair value are recorded in interest expense, net in the unaudited condensed consolidated statements of operations as these derivatives are not accounted for under hedge accounting.

Foreign Currency Contracts

The Company has foreign currency forward and option contracts that economically hedge its exposure to foreign currency fluctuations. As these hedges are not accounted for under hedge accounting, the changes in fair value are recorded in loss (gain) on foreign currency exchange, net in the unaudited condensed consolidated statements of operations. Cash flows from foreign currency forward and option contracts are classified as investing activities in the unaudited condensed consolidated statements of cash flows.

Commodity Contracts

The Company has commodity contracts that economically hedge commodity price variability inherent in certain electricity sales arrangements. If the Company sells electricity to an independent system operator market and there is no PPA available, it may enter into a commodity contract to hedge all or a portion of their estimated revenue stream. These commodity contracts require periodic settlements in which the Company receives a fixed price based on specified quantities of electricity and pays the counterparty a variable market price based on the same specified quantity of electricity. As these derivatives are not accounted for under hedge accounting, the changes in fair value are recorded in operating revenues, net in the unaudited condensed consolidated statements of operations.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of assets and liabilities are determined using either unadjusted quoted prices in active markets (Level 1) or pricing inputs that are observable (Level 2) whenever that information is available and using unobservable inputs (Level 3) to estimate fair value only when relevant observable inputs are not available. The Company uses valuation techniques that maximize the use of observable inputs. Assets and liabilities are classified in their entirety based on the lowest priority level of input that is significant to the fair value measurement. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in Level 2. If the inputs into the valuation are not corroborated by market data, in such instances, the valuation for these contracts is established using techniques including the extrapolation from or interpolation between actively traded contracts, as well as the calculation of implied volatilities. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized as Level 3. The Company regularly evaluates and validates the inputs used to determine the fair value of Level 3 contracts by using pricing services to support the underlying market price of the commodity.

The Company uses a discounted cash flow valuation technique to determine the fair value of its derivative assets and liabilities. The primary inputs in the valuation models for commodity contracts are market observable forward commodity curves, risk-free discount rates, volatilities and, to a lesser degree, credit spreads. The primary inputs into the valuation of interest rate swaps and foreign currency contracts are forward interest rates and foreign currency exchange rates and, to a lesser degree, credit spreads.

Recurring Fair Value Measurements

The following table summarizes the financial instruments measured at fair value on a recurring basis classified in the fair value hierarchy (Level 1, 2 or 3) based on the inputs used for valuation in the unaudited condensed consolidated balance sheets:

(In thousands)	As of September 30, 2020 Level 1	Level 2	Level 3	Total	As of December 31, 2019 Level 1	Level 2	Level 3	Total
Assets								
Interest rate swaps	$ —	$ —	$ —	$ —	$ —	$ 809	$ —	$ 809
Commodity contracts	—	2,060	47,251	49,311	—	5,859	59,312	65,171
Foreign currency contracts	—	3,318	—	3,318	—	7,556	—	7,556
Total derivative assets	$ —	$ 5,378	$ 47,251	$ 52,629	$ —	$ 14,224	$ 59,312	$ 73,536
Liabilities								
Interest rate swaps	$ —	$ 244,239	$ —	$ 244,239	$ —	$ 134,986	$ —	$ 134,986
Commodity contracts	—	288	—	288	—	—	—	—
Foreign currency contracts	—	—	—	—	—	377	—	377
Total derivative liabilities	$ —	$ 244,527	$ —	$ 244,527	$ —	$ 135,363	$ —	$ 135,363

The Company's interest rate swaps, foreign currency contracts and financial commodity contracts are considered Level 2, since all significant inputs are corroborated by market observable data. The Company's long-term physically settled commodity contracts (see *Note 11. Derivatives*) are considered Level 3 as they contain significant unobservable inputs. There were no transfers in or out of Level 1, Level 2 and Level 3 during the nine months ended September 30, 2020 and 2019.

The following table reconciles the changes in the fair value of derivative instruments classified as Level 3 in the fair value hierarchy for the nine months ended September 30, 2020 and 2019:

(In thousands)	Three Months Ended September 30, 2020	2019	Nine Months Ended September 30, 2020	2019
Beginning balance	$ 49,793	$ 86,079	$ 59,312	$ 79,652
Realized and unrealized gains (losses):				
Included in other comprehensive (loss) income	(59)	(6,760)	(594)	(2,605)
Included in operating revenues, net	(583)	(2,295)	(554)	3,793
Settlements	(1,900)	7,555	(10,913)	3,739
Ending balance	$ 47,251	$ 84,579	$ 47,251	$ 84,579

The significant unobservable inputs used in the valuation of the Company's commodity contracts classified as Level 3 in the fair value hierarchy as of September 30, 2020 are as follows:

(In thousands, except range) Transaction Type	Fair Value as of September 30, 2020 Assets	Liabilities	Valuation Technique	Unobservable Inputs as of September 30, 2020	
Commodity contracts - power	$ 47,251	$ —	Option model	Volatilities	14.9%
					Range[1]
			Discounted cash flow	Forward price (per MWh)	$10.53 - $113.90

(1) Represents the range of the forward power prices used in the valuation analysis that the Company has determined market participants would use when pricing the contracts.
(2) Unobservable inputs were weighted by the relative fair value of the instruments.

The sensitivity of the Company’s fair value measurements to increases (decreases) in the significant unobservable inputs is as follows:

Significant Unobservable Input	Position	Impact on Fair Value Measurement
Increase (decrease) in forward price	Forward sale	Decrease (increase)
Increase (decrease) in implied volatilities	Purchase option	Increase (decrease)

The Company measures the sensitivity of the fair value of its Level 3 commodity contracts to potential changes in commodity prices using a mark-to-market analysis based on the current forward commodity prices and estimates of the price volatility. An increase in power forward prices will produce a mark-to-market loss, while a decrease in prices will result in a mark-to-market gain. An increase in the estimates of the price volatility will produce a mark-to-market gain, while a decrease in volatility will result in a mark-to-market loss.

13. CONCENTRATION OF CREDIT RISK

The Company’s financial assets are typically subject to concentrations of credit risk and primarily consist of cash and cash equivalents, accounts receivable and derivative assets. The following table reflects the balances of the major financial assets that are subject to concentrations of credit risk as of September 30, 2020 and December 31, 2019:

(In thousands)	September 30, 2020	December 31, 2019
Cash and cash equivalents	$ 340,955	$ 349,500
Accounts receivable, net	228,099	167,865
Derivative assets	52,629	73,536
Total	$ 621,683	$ 590,901

Cash and Cash Equivalents

The Company is subject to concentrations of credit risk related to the cash and cash equivalents that may exceed the insurable limits in the related jurisdictions. The maximum exposure to loss due to credit risk would generally equal the stated value of cash and cash equivalents in the above table. The Company places its cash and cash equivalents with creditworthy financial institutions and, historically, did not experience any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

Accounts Receivable, Net

The Company serves hundreds of customers in three continents, and, in the U.S., the Company’s customers are spread across various states resulting in the diversification of its customer base. Furthermore, a significant portion of the Company’s operating revenues are contracted through long-term PPAs with offtake counterparties that are government-backed entities and public utility companies that, on average, had an investment grade credit rating.

During the nine months ended September 30, 2020, the Company earned $327.9 million from the Spanish Electricity System of which $270.7 million were billing through the Comisión Nacional de los Mercados y la Competencia (“CNMC”). These operating revenues were earned within the Regulated Solar and Wind segment and represented 40% of the Company’s net consolidated operating revenues. The CNMC is the state-owned regulator of the Spanish Electricity System who collects the funds payable, mainly from the tariffs to end user customers, and is responsible for the calculation and the settlement of regulated payments. The Company’s management believes that this concentration of risk is mitigated by, among other things, the indirect support of the Spanish government for the CNMC’s obligations and, in general, by the regulated rate system in Spain.

Notwithstanding the creditworthiness and diversification of the Company’s offtake counterparties, any customers have the potential to impact the Company’s credit exposure resulting in credit losses.

Credit Losses

Credit losses refer to the financial losses resulting from non-performance or non-payment by counterparties under the contractual obligations they are bound by. The Company is exposed to credit losses primarily from its customers through the sale of electricity and the generation of green attributes.

The Company has policies in place to ensure that sales are made to customers who are creditworthy and are expected to honor their contractual obligations under their original terms. The Company assesses each customer's ability to pay by conducting a credit review prior to entering into a new PPA or contracts to deliver RECs, and considers contract terms and conditions, country and political risk, and the business strategy in its evaluation.

The Company monitors the ongoing credit risk from its customers through the review of counterparty balances against contract terms and due dates. The Company reviews the aging of outstanding receivables and actively communicates with the customers on a regular to ensure timely collection. From time to time, the Company may employ legal counsel to pursue recovery of defaulted receivables.

The Company establishes an allowance for doubtful accounts to adjust its accounts receivables to the amounts considered to be ultimately collectible, and charges to the allowance are recorded within general and administrative expenses in the unaudited condensed consolidated statements of operations. The Company regularly reviews the adequacy of the allowance for doubtful accounts by considering factors as historical experience, credit worthiness, and current economic conditions that may affect a customer's ability to pay. The allowance for doubtful accounts was $6.3 million and $1.4 million as of September 30, 2020, and December 31, 2019, respectively. The charges to the allowance recorded within general and administrative expenses for the three months ended September 30, 2020 and 2019, were $2.2 million and $0.6 million, respectively, and for the nine months ended September 30, 2020 and 2019, were $1.0 million and $0.8 million, respectively.

Derivative Assets

The Company is subject to credit risk related to its derivatives to the extent the hedge counterparties may be unable to meet the terms of the contractual arrangements. The maximum exposure to loss due to credit risk if counterparties fail completely to perform according to the terms of the contracts would generally equal the fair value of derivative assets presented in the above table. The Company seeks to mitigate credit risk by transacting with a group of creditworthy financial institutions and through the use of master netting arrangements.

14. COMMITMENTS AND CONTINGENCIES

Letters of Credit

The Company's customers, vendors and regulatory agencies often require the Company to post letters of credit in order to guarantee performance under certain contracts and agreements. The Company is also required to post letters of credit to secure obligations under various swap agreements and leases and may, from time to time, decide to post letters of credit in lieu of cash deposits in reserve accounts under certain financing arrangements. The amount that can be drawn under some of these letters of credit may be increased from time to time subject to the satisfaction of certain conditions. As of September 30, 2020, the Company had outstanding letters of credit drawn under the Revolver of $122.2 million and outstanding project-level letters of credit of $319.2 million drawn under certain project level financing agreements, compared to $115.5 million and $266.9 million, respectively, as of December 31, 2019.

Guarantee Agreements

The Company and its subsidiaries have entered into guarantee agreements to certain of their institutional tax equity investors and financing parties in connection with their tax equity financing transactions. These agreements do not guarantee the returns targeted by the tax equity investors or financing parties, but rather support any potential indemnity payments payable under the tax equity agreements, including related to management of tax partnerships and recapture of tax credits or renewable energy grants in connection with transfers of the Company's direct or indirect ownership interests in the tax partnerships to entities that are not qualified to receive those tax benefits.

The Company and its subsidiaries have also provided guarantees in connection with acquisitions of third-party assets or to support project-level contractual obligations, including renewable energy credit sales agreements. The Company and its subsidiaries have also provided other capped or limited contingent guarantees and other support obligations with respect to certain project-level indebtedness.

The amounts of the above guarantees often are not explicitly stated and the overall maximum amount of the related obligations cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees. The Company believes the probability of payments being demanded under these guarantees is remote and no material amounts have been recognized for the underlying fair value of guarantee obligations.

Legal Proceedings

The Company is not a party to any material legal proceedings other than various administrative and regulatory proceedings arising in the ordinary course of the Company's business. The Company's parent entities, TERP NY (as successor to TERP Inc.) and/or Terra LLC are party to the legal proceedings described below. While the Company is not party to these proceedings, any of these claims, if adversely concluded, could result in substantial damages or other relief payable by TERP NY and/or TERP LLC, which could have a material adverse impact on the Company. The Company cannot predict with certainty the ultimate resolution of these proceedings.

Claim relating to First Wind Acquisition

On May 27, 2016, D.E. Shaw Composite Holdings, L.L.C. and Madison Dearborn Capital Partners IV, L.P., as the representatives of the sellers (the "First Wind Sellers") filed an amended complaint for declaratory judgment against TERP Inc. and Terra LLC in the Supreme Court of the State of New York alleging breach of contract with respect to the Purchase and Sale Agreement, dated as of November 17, 2014 (the "FW Purchase Agreement") between, among others, SunEdison, Inc. ("SunEdison"), TERP Inc., Terra LLC and the First Wind Sellers. The amended complaint alleges that Terra LLC and SunEdison became jointly obligated to make $231.0 million in earn-out payments in respect of certain development assets SunEdison acquired from the First Wind Sellers under the FW Purchase Agreement, when those payments were purportedly accelerated by SunEdison's bankruptcy and by the resignations of two SunEdison employees. The amended complaint further alleges that TERP Inc., as guarantor of certain Terra LLC obligations under the FW Purchase Agreement, is liable for this sum. In addition, the plaintiffs have claimed legal costs and expenses and, under applicable New York law, their claim accrues interest at a non-compounding rate of 9% per annum.

The defendants filed a motion to dismiss the amended complaint on July 5, 2016, on the ground that, among other things, SunEdison is a necessary party to this action. On February 6, 2018, the court denied the Company's motion to dismiss after which document discovery began. In April 2019, Terra LLC filed an amended answer to the amended complaint. As of the date of this Quarterly Report, the parties have filed their respective motions for summary judgment and supporting briefs and are waiting for the court's ruling on these motions.

The Company cannot predict the impact on this litigation of any information that may become available through the course of these legal proceedings. The Company believes the First Wind Sellers' allegations are without merit and will contest them vigorously. However, the Company cannot predict with certainty the ultimate resolution of any proceedings brought in connection with such a claim.

Whistleblower Complaint by Carlos Domenech Zornoza

On May 10, 2016,Terp Inc.'s former Director and Chief Executive Officer, Carlos Domenech Zornoza ("Mr. Domenech"), filed a complaint against TERP Inc., TerraForm Global and certain individuals, with the United States Department of Labor. The complaint alleges that the defendants engaged in a retaliatory termination of Mr. Domenech's employment on November 20, 2015, after he allegedly voiced concerns to SunEdison's Board of Directors about public representations made by SunEdison officers regarding SunEdison's liquidity position, and after he allegedly voiced his opposition to transactions that he alleges were self-interested and which he alleges SunEdison forced on the Company. He alleges that the Company participated in SunEdison's retaliatory termination by terminating his position as Chief Executive Officer of the Company in connection with SunEdison's termination of his employment. He seeks lost wages, bonuses, benefits, and other money that he alleges that he would have received if he had not been subjected to the allegedly retaliatory termination. TERP Inc.'s Position Statement in response to the complaint was filed in October 2016. Mr. Domenech subsequently filed a federal lawsuit (addressed immediately below) that had the effect of discontinuing this matter.

On February 21, 2017, Mr. Domenech filed Domenech Zornoza v. TerraForm Global, Inc. et. al against TERP Inc., TerraForm Global and certain individuals as defendants in the United States District Court for the District of Maryland. The complaint asserted claims for retaliation, breach of the implied covenant of good faith and fair dealing and promissory estoppel based on the same allegations in Mr. Domenech's Department of Labor complaint. On March 15, 2017, TERP Inc. filed notice with the Judicial Panel on Multidistrict Litigation to transfer this action to the SDNY where other cases not involving TERP

Inc. relating to the SunEdison bankruptcy are being tried. The plaintiff opposed the transfer. However, the transfer was approved by the Judicial Panel on Multidistrict Litigation. On November 6, 2017, TERP Inc. and the other defendants filed a motion to dismiss Mr. Domenech's complaint, and Mr. Domenech filed a response on December 21, 2017. On March 8, 2018, Mr. Domenech voluntarily dismissed the federal action without prejudice, which would permit the action to be refiled.

On August 16, 2018, Mr. Domenech filed a second complaint with the United States District Court for the District of Maryland, with substantially the same allegations. On October 17, 2018, the Company filed notice with the Judicial Panel on Multidistrict Litigation to transfer this action to the SDNY. The Plaintiff opposed the transfer. However, the transfer was approved by the Judicial Panel on Multidistrict Litigation. On March 15, 2019, TERP Inc., TerraForm Global, and several individual defendants filed a joint motion to dismiss Mr. Domenech's complaint. Mr. Domenech filed a response on April 15, 2019, and TERP Inc., TerraForm Global, and the individual defendants filed a reply on April 25, 2019. On December 9, 2019, the Court dismissed two of his three claims against the Company and TerraForm Global. On January 22, 2020, TERP Inc. filed an answer to Mr. Domenech's remaining, narrowed claim of retaliatory termination. The parties and the Court scheduled a Rule 16 discovery conference held on September 9, 2020. On September 21, 2020, the Court issued a scheduling order requiring fact discovery to be completed by June 21, 2021, and expert discovery to be completed by September 21, 2021. The parties are now in discovery.

The Company reserved for its estimated loss related to this complaint in 2016, which was not considered material to the Company's consolidated results of operations, and this amount remains accrued as of September 30, 2020. However, the Company is unable to predict with certainty the ultimate resolution of these proceedings.

Derivative Class Action

On September 19, 2019, lead plaintiff Martin Rosson filed a derivative and class action lawsuit in the Delaware Court of Chancery on behalf of TERP Inc., himself, and other minority stockholders of the Company against Brookfield and certain of its affiliates (including the Company as a nominal defendant). The complaint alleges that the defendant controlling stockholders breached their fiduciary duty to minority stockholders because TERP Inc. undertook a private placement of TERP Inc.'s stock on terms that the complaint alleges are unfair, instead of pursuing a public offering. The proceeds of this private placement were used to fund the acquisition by the Company of Saeta and had been approved by the Conflicts Committee of TERP Inc.'s Board of Directors. The complaint seeks the rescission and invalidation of the private placement and payment to the Company of rescissory damages, among other relief.

On January 27, 2020, the City of Dearborn Police and Retirement System (a purported stockholder of TERP Inc.) filed a derivative and class action lawsuit in the Delaware Court of Chancery on behalf of the Company, itself, and other minority stockholders of the Company against Brookfield and certain of its affiliates (including the Company as a nominal defendant) alleging claims similar to those set forth in the Rosson complaint. The City of Dearborn Police and Retirement System and Martin Rosson agreed, with the consent of the Company and Brookfield, to consolidate their respective claims and such consolidation was approved by the Court during the first quarter of 2020. Brookfield then filed a motion to dismiss certain of the plaintiff's claims and the Company filed a pro forma joinder to the motion to dismiss. The derivative claim has now been dismissed, but the direct claim remains pending. While the Company believes that the remaining claim is without merit, it cannot predict with certainty the ultimate resolution of any proceedings brought in connection with this claim.

Demand for Access to Books and Records

On March 26, 2020, the Company received the first of seven demand letters for the production of books and records pursuant to 8 Del. C. § 220, one of which was subsequently withdrawn. These letters sought to allow counsel to the City of Dearborn Police and Retirement System, Martin Rosson and others to investigate potential breaches of fiduciary duty by Brookfield and the Company's Board of Directors in connection with the announcement of the signing of a merger agreement among the Company, Brookfield Renewable and certain of their affiliates. To date, three related claims have been filed in Delaware Chancery Court demanding access to our books and records. We have agreed to a limited production of documents. The Company believes the allegations made in all of the letters and all related claims are without merit and that the requests for access to books and records are inappropriate; however, we cannot predict with certainty the ultimate resolution of proceedings brought in connection with these allegations.

Other Matters

Two of the Company's project subsidiaries were parties to litigation that was seeking to recover alleged underpayments of tax grants under Section 1603 of the American Recovery and Reinvestment Tax Act from the U.S. Department of Treasury ("U.S. Treasury"). These project subsidiaries filed complaints at the Court of Federal Claims on March 28, 2014. The U.S. Treasury counterclaimed and both claims went to trial in July 2018. In January 2019, the Court of Federal

Claims entered judgments against each of the project subsidiaries for approximately $10.0 million in the aggregate. These judgments were affirmed on appeal. On July 17, 2020, the project subsidiaries settled the full amount of the litigation with the U.S. Treasury through payments made directly by the previous owners pursuant to the indemnification agreement.

Issuance of Shares upon Final Resolution of Certain Litigation Matters

Pursuant to the merger and sponsorship transaction agreement (the “2017 Merger Agreement”) entered into among TERP Inc., Orion US Holdings 1 L.P. (“Orion U.S.”) and BRE TERP Holdings Inc. on March 6, 2017, TERP Inc. had previously agreed to issue additional shares of Common Stock to Orion U.S. for no additional consideration in respect of TERP Inc.’s net losses, such as out-of-pocket losses, damages, costs, fees and expenses, in connection with the obtainment of a final resolution of certain specified litigation matters (including the litigation brought by the First Wind Sellers and Mr. Domenech described above) within a prescribed period following the final resolution of such matters. The number of additional shares of Common Stock to be issued to Orion U.S. was previously subject to a pre-determined formula as set forth in the 2017 Merger Agreement, as described in greater detail in TERP Inc.’s Definitive Proxy Statement on Schedule 14A filed with the SEC on September 6, 2017.

On July 31, 2020, TERP NY (as successor by merger to TERP Inc.) and Orion Holdings entered into an amendment to the 2017 Merger Agreement, pursuant to which, among other things, the provisions of the 2017 Merger Agreement relating to the contingent equity consideration payable to Orion U.S. under certain circumstances were amended to provide that the fair market value of such consideration would be determined based on an internal valuation determined by affiliates of the Brookfield Stockholders (as defined in *Note 15. Related Parties*).

As of the date hereof, the Company is unable to predict the amount of net losses, if any, arising from the litigation brought by the First Wind Sellers and Mr. Domenech described above or the number of additional shares, if any, that may be required to be issued to Orion U.S. pursuant to the terms of the 2017 Merger Agreement in connection with any final resolution of such matters.

15. RELATED PARTIES

As discussed in *Note 1. Nature of Operations and Organization*, the Company is a controlled affiliate of Brookfield. Effective July 31, 2020, the Company became a wholly-owned indirect subsidiary of Brookfield Renewable and its affiliates. As of September 30, 2020, Brookfield owned approximately 51.5% of Brookfield Renewable on a fully-exchanged basis and the remaining approximately 48.5% is held by public investors.

Merger Transaction

On January 11, 2020, TERP Inc. received an unsolicited and non-binding proposal (the “Brookfield Proposal”) from Brookfield Renewable, an affiliate of Brookfield, to acquire all of the outstanding shares of Common Stock of TERP Inc., other than the approximately 62% shares held by Brookfield Renewable and its affiliates. The Brookfield Proposal expressly conditioned the transaction contemplated thereby on the approval of a committee of the Board of Directors of TERP Inc. (the “Board”) consisting solely of independent directors and the approval of a majority of the shares held by TERP Inc.’s stockholders not affiliated with Brookfield Renewable and its affiliates. Following TERP Inc.’s receipt of the Brookfield Proposal, the Board formed a Special Committee of non-executive, disinterested and independent directors (the “Special Committee”) to, among other things, review, evaluate and consider the Brookfield Proposal and, if the Special Committee deemed appropriate, negotiate a transaction with Brookfield Renewable or explore alternatives thereto. The Board resolutions establishing the Special Committee expressly provided that the Board would not approve the transaction contemplated by the Brookfield Proposal or any alternative thereto without a prior favorable recommendation by the Special Committee.

On March 16, 2020, TERP Inc. entered into an Agreement and Plan of Reorganization (the “Reorganization Agreement”), by and among Brookfield Renewable, Brookfield Renewable Corporation, a corporation incorporated under the laws of British Columbia and an indirect subsidiary of Brookfield Renewable (“BEPC”), 2252876 Alberta ULC, an unlimited liability corporation incorporated under the laws of Alberta and a wholly owned direct subsidiary of Brookfield Renewable (“Acquisition Sub” and, together with Brookfield Renewable and BEPC, the “BEP Entities”), TERP Inc., and TERP NY, a New York corporation and a wholly owned direct subsidiary of the TERP Inc. (TERP NY together with TERP Inc., the “Company Entities”). The Board, upon the unanimous recommendation of the Special Committee, and the Board of Directors of the general partner of Brookfield Renewable approved the Reorganization Agreement and the transactions contemplated thereby.

On July 31, 2020, pursuant to the Reorganization Agreement, Brookfield Renewable, through Acquisition Sub and BEPC, acquired all of the outstanding Common Stock of TERP Inc. not held by the Brookfield Stockholders (as defined below) (such shares, the "Public TERP Shares") through a series of transactions that include the Reincorporation Merger and the Share Exchange (each as defined below). Pursuant to the Reorganization Agreement and the Plan of Merger (as defined below), at the effective time of the Reincorporation Merger (the "Reincorporation Effective Time"), TERP Inc. merged with and into TERP NY, with TERP NY as the surviving corporation of such merger (the "Reincorporation Merger"), and (i) BBHC Orion Holdco L.P. ("BBHC Orion") and Orion U.S. (Orion U.S. together with BBHC Orion, the "Brookfield Stockholders"), each an affiliate of BEP, received shares of Class A common stock, par value $0.01, of TERP NY ("TERP NY Class A Common Stock"), (ii) holders of Public TERP Shares who did not elect to receive non-voting limited partnership units of BEP ("BEP Units") received shares of Class B common stock, par value $0.01, of TERP NY ("TERP NY Class B Common Stock"), and (iii) holders of Public TERP Shares who elected to receive BEP Units received shares of Class C common stock, par value $0.01, of TERP NY ("TERP NY Class C Common Stock"). Immediately thereafter, at the effective time of the Share Exchange (as defined below) (the "Exchange Effective Time"), (i) pursuant to a binding share exchange, BEPC acquired each share of TERP NY Class B Common Stock issued and outstanding after the Reincorporation Effective Time in exchange for the right to receive Class A exchangeable subordinate voting shares, no par value, of BEPC (the "BEPC Shares") and cash in lieu of fractional BEPC Shares (the "BEPC Exchange") and (ii) pursuant to a binding share exchange, Acquisition Sub acquired each share of TERP NY Class C Common Stock issued and outstanding after the Reincorporation Effective Time in exchange for the right to receive BEP Units and cash in lieu of fractional BEP Units (the "BEP Exchange" and, together with the BEPC Exchange, the "Share Exchange" and, together with the Reincorporation Merger, the "Merger Transaction").

Pursuant to the Share Exchange, each holder of Public TERP Shares was entitled to receive for each Public TERP Share held by such holder as consideration 0.381 of a BEPC Share or, at the election of such holder, 0.381 of a BEP Unit, in each case as adjusted for the BEPC Distribution (as defined and described below) (such 0.381 exchange ratio as adjusted, the "Adjusted Exchange Ratio") plus any cash paid in lieu of fractional BEP Units or BEPC Shares, as applicable (the "Consideration"). Holders of Public TERP Shares who did not make any election received BEPC Shares. There was no limit on the number of Public Shares that could elect to receive BEPC Shares or BEP units. The BEPC Shares are structured with the intention of being economically equivalent to the BEP Units, including identical distributions, as and when declared, and will be fully exchangeable at any time, at the option of holders of such BEPC Shares, for a BEP Unit, initially on a one-for-one basis, subject to adjustment for certain events.

All outstanding restricted stock units of TERP Inc. (the "TERP Inc. RSUs") were converted into restricted stock units with respect to TERP NY Class B Shares (the "TERP NY RSUs") on a one-for-one basis at the effective time of the Reincorporation Merger. At the effective time of the Share Exchange, each TERP NY RSU was then converted into a time-based restricted stock unit of BEPC with respect to a number of BEPC Shares equal to the product of (i) the number of shares subject to such TERP NY RSU immediately prior to the effective time of the Share Exchange and (ii) the Adjusted Exchange Ratio. Such restricted stock units are subject to substantially the same terms and conditions as were applicable to the TERP Inc. RSUs (except that the form of payment upon vesting will be in BEPC Shares).

The Company Entities and the BEP Entities each made customary representations, warranties and covenants in the Reorganization Agreement, in each case generally subject to customary materiality qualifiers. The Company Entities and the BEP Entities also agreed, subject to certain exceptions, to various other customary covenants and agreements, including agreements to conduct their respective businesses in the ordinary course during the period between the date of the Reorganization Agreement and the closing and, subject to certain exceptions, to refrain from certain actions during that time, including, (i) declaring and making dividends; (ii) acquiring assets if such acquisition would reasonably be expected to prevent, materially delay or materially impede the consummation of the Merger Transaction; (iii) with respect to BEP and BEPC, authorizing or entering into a plan of complete or partial liquidation or dissolution; and (iv) amending their organizational documents. TERP Inc. also agreed to refrain from soliciting or responding to alternative proposals for a transaction, except that the Board, acting at the recommendation of the Special Committee, was permitted to change its recommendation to stockholders if it determined that a failure to do so would be reasonably likely to be inconsistent with its fiduciary duties, subject to a three business day notification period for the BEP Entities.

The consummation of the Merger Transaction was conditioned on the satisfaction or waiver (except with respect to the condition set forth in clause (i) below, which was not waivable) of certain events, including, among other matters, (i) the approval by each of (A) the holders of a majority of the Common Stock outstanding and entitled to vote thereon and (B) the holders of a majority of the Public TERP Shares outstanding and entitled to vote thereon (collectively, the "Requisite TERP Inc. Stockholder Approvals"), (ii) the BEPC Shares and BEP Units to be issued to TERP Inc.'s stockholders in the Merger Transaction having been approved for listing on the New York Stock Exchange and the Toronto Stock Exchange, (iii) expiration of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and receipt of approval under the Competition Act, R.S.C., 1985, c. C 34 and certain other specified required government approvals, (iv) no temporary restraining order, preliminary or permanent injunction or other judgment or law entered, enacted, promulgated, enforced or issued by any court or other governmental entity of competent jurisdiction (collectively, "Restraints") being in effect preventing, making illegal or prohibiting the consummation of the Merger Transaction, (v) effectiveness of certain of the BEP Entities' F-3 and F-4 registration statements, and (vi) filing of a prospectus in Canada under applicable securities law.

TERP Inc.'s obligation to consummate the Merger Transaction was also conditioned on the satisfaction or waiver of certain other events, including, (A) receipt by TERP Inc. of an opinion from Torys LLP with respect to certain tax matters, (B) the contribution of certain assets of BEP into BEPC, and (C) the BEPC Distribution (as defined below) having occurred or all actions reasonably necessary to cause the BEPC Distribution to occur substantially simultaneously with the closing having occurred. By reason of the commitment of the Brookfield Stockholders under the Voting Agreement (as defined below) to vote their Common Stock in favor of the Transaction, the condition described in clause (i) above will be satisfied if the Merger Transaction is approved by the holders of a majority of the Public Shares outstanding and entitled to vote thereon.

The Reorganization Agreement contained certain termination rights for both TERP Inc. and BEP, including, by mutual consent of TERP Inc. and BEP; by either TERP Inc. or BEP, if (i) the Merger Transaction had not been consummated on or before December 16, 2020, subject to a further three-month extension under certain circumstances; (ii) if the other party breached any of its representations, warranties, covenants or other agreements in the Reorganization Agreement that was not reasonably capable of being cured by the end date above or was not cured in accordance with the terms of the Reorganization Agreement and such breach caused the applicable closing conditions not to be satisfied; (iii) if the condition set forth in clause (iv) of the preceding paragraph had not been satisfied and the Restraint giving rise to such non-satisfaction had become final and nonappealable; and (v) if either of the Requisite Company Stockholder Approvals had not been obtained upon a vote at a duly held meeting. Additionally, BEP had the right to terminate the Reorganization Agreement if the Board, acting at the recommendation of the Special Committee, changed its recommendation. If the Reorganization Agreement was terminated by either TERP Inc. or BEP because the Required Company Stockholder Approvals are not obtained, TERP Inc. would be required to pay to BEP a fee equal to $15,000,000.

The Reorganization Agreement provided that, on or prior to the closing date, the BEP Entities would, and would cause their applicable affiliates to, enter into various other agreements substantially in the forms attached to the Reorganization Agreement, including:

- a rights agreement between Brookfield and Wilmington Trust, National Association, as the rights agent (referred to in the Reorganization Agreement as the "Rights Agreement"), pursuant to which Brookfield would agree to satisfy the obligations of BEP and BEPC to exchange BEPC Shares for BEP Units where BEPC or BEP had not satisfied such exchange request by a holder of BEPC Shares, in each case, subject to the terms and conditions set forth in the Rights Agreement;
- certain subordinated credit agreements between a BEP and BEPC subsidiary in order to allow for cash management among BEP and its subsidiaries following the closing;
- an equity commitment agreement by and among Brookfield BRP Holdings (Canada) Inc., a subsidiary of BEP ("Canada HoldCo"), BEP and BEPC, pursuant to which (x) for 10 years following closing, Canada Holdco will agree to subscribe for up to $1 billion of BEPC class C non-voting shares, in order to fund growth capital investments and acquisitions or working capital and (y) until there were no longer any BEPC Shares held by the public, BEP will agree not to declare or pay any distribution on the BEP Units if BEPC does not have sufficient money or other assets to enable BEPC to declare and pay an equivalent dividend on the BEPC Shares; and
- amended articles of BEPC, which include the rights, preferences and privileges of the BEPC capital stock, including the BEPC Shares.

BEPC Distribution

Concurrently with the closing of the Merger Transaction, BEP undertook a special distribution of BEPC Shares (the "BEPC Distribution") to holders of BEP Units. As a result of the BEPC Distribution, holders of BEP Units received BEPC Shares for their BEP Units in accordance with a distribution ratio determined by the Board of Directors of the general partner of BEP. Holders of Public TERP Shares who elected to receive BEP Units pursuant to the BEP Exchange were not be entitled to receive, and did not receive, BEPC Shares in the BEPC Distribution.

Voting Agreement

Simultaneously with the execution of the Reorganization Agreement, TERP Inc. entered into a Voting Agreement (the "Voting Agreement") with the Brookfield Stockholders, pursuant to which the Brookfield Stockholders agreed, among other things, to vote their respective Common Stock in favor of the approval of the Reorganization Agreement and against any alternative proposal as further set forth in the Voting Agreement. Prior to the consummation of the Merger Transaction, the Brookfield Stockholders beneficially owned approximately 61.65% of the outstanding Common Stock.

Brookfield Sponsorship Transaction

Pursuant to the transactions consummated pursuant to the 2017 Merger Agreement, TERP Inc. had previously entered into a suite of agreements with Brookfield and/or certain of its affiliates providing for sponsorship arrangements, as are more fully described below.

Brookfield Master Services Agreement

TERP Inc. was party to a master services agreement (the "Brookfield MSA") with Brookfield and certain affiliates of Brookfield (collectively, the "MSA Providers") pursuant to which the MSA Providers provided certain management and administrative services to TERP Inc., including the provision of strategic and investment management services. As consideration for the services provided or arranged for by Brookfield and certain of its affiliates pursuant to the Brookfield MSA, TERP Inc. paid a base management fee on a quarterly basis that is paid in arrears and calculated as follows:

- for each of the first four quarters following October 16, 2017, the closing date of the 2017 merger, when Brookfield initially became sponsor and controlling shareholder of TERP Inc. (the "2017 Merger"), a fixed component of $2.5 million per quarter (subject to proration for the quarter including the closing date of the 2017 Merger) plus 0.3125% of the market capitalization value increase for such quarter;
- for each of the next four quarters, a fixed component of $3.0 million per quarter adjusted annually for inflation plus 0.3125% of the market capitalization value increase for such quarter; and
- thereafter, a fixed component of $3.75 million per quarter adjusted annually for inflation plus 0.3125% of the market capitalization value increase for such quarter.

For purposes of calculating the quarterly payment of the base management fee, the term market capitalization value increase meant, for any quarter, the increase in value of TERP Inc.'s market capitalization for such quarter, calculated by multiplying the number of outstanding shares of Common Stock as of the last trading day of such quarter by the difference between (x) the volume-weighted average trading price of a share of Common Stock for the trading days in such quarter and (y) $9.52. If the difference between (x) and (y) in the market capitalization value increase calculation for a quarter was a negative number, then the market capitalization value increase was deemed to be zero.

Pursuant to the Brookfield MSA, the Company recorded charges of $3.9 million and $23.3 million within general and administrative expenses - affiliate in the consolidated statements of operations for the three and nine months ended September 30, 2020, respectively, as compared to $7.5 million and $18.3 million for the same periods in 2019, respectively.

The Brookfield MSA was terminated on July 31, 2020, upon the completion of the Merger Transaction as discussed above.

Relationship Agreement

TERP Inc. was party to a relationship agreement (the "Relationship Agreement") with Brookfield, which governed certain aspects of the relationship between Brookfield and TERP Inc. Pursuant to the Relationship Agreement, Brookfield agreed that TERP Inc. would serve as the primary vehicle through which Brookfield and certain of its affiliates would own operating wind and solar assets in North America and Western Europe and that Brookfield would provide, subject to certain terms and conditions, TERP Inc. with a right of first offer on certain operating wind and solar assets that are located in such countries and developed by persons sponsored by or under the control of Brookfield. The rights of TERP Inc. under the Relationship Agreement were subject to certain exceptions and consent rights set out therein. TERP Inc. did not acquire any renewable energy facilities from Brookfield during the nine months ended September 30, 2020 or during 2019.

On July 31, 2020, as a result of the termination of the Brookfield MSA, the Relationship Agreement automatically terminated in accordance with its terms.

Terra LLC Agreement

BRE Delaware, LLC (formerly BRE Delaware, Inc.) (the "Brookfield IDR Holder"), an indirect, wholly-owned subsidiary of Brookfield, previously held all of the outstanding IDRs of Terra LLC. The Company, Brookfield IDR Holder and TerraForm Power Holdings, Inc. were party to the limited liability company agreement of Terra LLC (as amended from time to time, the “Terra LLC Agreement”). Under the Terra LLC Agreement, IDRs were payable when distributions on Common Stock reach a certain threshold. The IDR threshold for a first distribution was $0.93 per share of Common Stock and for a second distribution was $1.05 per share of Common Stock. There were no IDR payments made by the Company pursuant to the Terra LLC Agreement during the nine months ended September 30, 2020 or during 2019.

On July 31, 2020, upon the completion of the Merger Transaction, as discussed above, TERP NY, TerraForm Power Holdings, Inc., a Delaware corporation, and Brookfield IDR Holder entered into the Fourth Amended and Restated Limited Liability Company Agreement of TerraForm Power, LLC (the “New LLCA”), pursuant to which, among other things, the obligations of Terra LLC to make incentive distribution right payments to Brookfield IDR Holder were terminated.

Registration Rights Agreement

TERP Inc. was party to a registration rights agreement (the “Registration Rights Agreement”) on October 16, 2017 with Orion U.S. On June 11, 2018, Orion Holdings, Brookfield BRP Holdings (Canada) Inc. and TERP Inc. entered into a Joinder Agreement pursuant to which Brookfield BRP Holdings (Canada) Inc. became a party to the Registration Rights Agreement. On June 29, 2018, a second Joinder Agreement was entered into among Orion U.S., Brookfield BRP Holdings (Canada) Inc., BBHC Orion Holdco L.P. and TERP Inc. pursuant to which BBHC Orion Holdco L.P. became a party to the Registration Rights Agreement. The Registration Rights Agreement governed the rights and obligations of the parties thereto with respect to the registration for resale of all or a part of the Common Stock held by Orion U.S., BBHC Orion Holdco L.P and such other affiliates of Brookfield from time to time to the Registrations Rights Agreement.

On July 31, 2020, the Registration Rights Agreement was terminated, upon the completion of the Merger Transaction as discussed above.

Sponsor Line Agreement

On October 16, 2017, TERP Inc. entered into a credit agreement (the “Sponsor Line”) with Brookfield and one of its affiliates. The Sponsor Line established a $500.0 million secured revolving credit facility and provided for the lenders to commit to make LIBOR loans to the Company during a period not to exceed three years from the effective date of the Sponsor Line (subject to acceleration for certain specified events). TERP Inc. could only use the revolving Sponsor Line to fund all or a portion of certain funded acquisitions or growth capital expenditures. The Sponsor Line was to terminate, and all obligations thereunder would become payable, no later than October 16, 2022. Borrowings under the Sponsor Line bore interest at a rate per annum equal to a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus 3.00% per annum. In addition to paying interest on outstanding principal under the Sponsor Line, TERP Inc. was required to pay a standby fee of 0.50% per annum in respect of the unutilized commitments thereunder, payable quarterly in arrears. TERP Inc. was permitted to voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans under the Sponsor Line at any time without premium or penalty, other than customary “breakage” costs. TERP Inc.’s obligations under the Sponsor Line were secured by first-priority security interests in substantially all assets of TERP Inc., including 100% of the capital stock of Terra LLC, in each case subject to certain exclusions set forth in the credit documentation governing the Sponsor Line. Under certain circumstances, TERP Inc. could have been required to prepay amounts outstanding under the Sponsor Line. Total interest expense, including the amortization of the deferred financing costs incurred on the Sponsor Line for the three and nine months ended September 30, 2020 was $1.0 million and $3.1 million, respectively.

On July 31, 2020, the Sponsor Line was terminated upon the completion of the Merger Transaction as discussed above.

Governance Agreement

In connection with the consummation of the Merger, TERP Inc. was party to a governance agreement (the “Governance Agreement”) with Orion U.S. and any controlled affiliate of Brookfield (other than TERP Inc. and its controlled affiliates) that by the terms of the Governance Agreement from time to time becomes a party thereto. The Governance Agreement established certain rights and obligations of TERP Inc. and controlled affiliates of Brookfield that own voting securities of TERP Inc. relating to the governance of TERP Inc. and the relationship between such affiliates of Brookfield and TERP Inc. and its controlled affiliates. On June 11, 2018, Orion U.S., Brookfield BRP Holdings (Canada) Inc. and TERP Inc. entered into a Joinder Agreement pursuant to which Brookfield BRP Holdings (Canada) Inc. became a party to the Governance Agreement. On June 29, 2018, a second Joinder Agreement was entered into among Orion U.S., Brookfield BRP Holdings (Canada) Inc., BBHC Orion Holdco L.P. and TERP Inc. pursuant to which BBHC Orion Holdco L.P. became a party to the Governance Agreement.

On July 31, 2020, as a result of the termination of the Brookfield MSA, the Governance Agreement automatically terminated in accordance with its terms.

New York Office Lease & Co-tenancy Agreement

In May 2018, in connection with the relocation of the Company's corporate headquarters to New York City, the Company entered into a lease for office space and related co-tenancy agreement with affiliates of Brookfield for a ten-year term. The Company recorded $0.9 million of charges related to the lease of the office space within general and administrative expenses - affiliate in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2020, respectively, as compared to $0.3 million and $0.7 million for the same periods in 2019.

Other Brookfield Transactions and Agreements

Acquisition-related Services

During the nine months ended September 30, 2020, an affiliate of Brookfield incurred $0.8 million for services and fees payable on behalf of the Company in relation to acquisitions made by the Company in Spain. These costs primarily represent professional fees for legal, valuation and accounting services.

Agreements with X-Elio Energy

On December 18, 2019, the Company acquired an approximately 45 MW portfolio of utility-scale solar photovoltaic power plants in Spain (the "X-Elio Acquisition") from subsidiaries of X-Elio Energy, S.L. ("X-Elio"). Contemporaneously with the closing of the X-Elio Acquisition, Brookfield and certain of its institutional partners entered into a 50-50 joint venture in respect of X-Elio.

The X-Elio Acquisition was completed pursuant to three share purchase agreements with X-Elio (collectively the "X-Elio SPAs"), pursuant to which the Company acquired three X-Elio subsidiaries. In connection with the X-Elio Acquisition, on the closing date, the Company entered into a transitional services agreement with X-Elio, pursuant to which X-Elio agreed to support the Company on a transitional basis by providing certain accounting and other services for an initial three-month term that may be extended at the election of the Company for an additional three-month term. In addition, the subsidiaries acquired by the Company were party to existing O&M agreements with X-Elio (collectively, the "X-Elio O&M Agreements"), pursuant to which X-Elio provided O&M services to the acquired solar power facilities. Under the terms of the X-Elio SPAs, the X-Elio O&M Agreements will remain in effect for a maximum 12-month term after the closing date, subject to earlier termination at the Company's election, for a total consideration of approximately $1.1 million. Under the X-Elio SPAs, certain indemnity and other obligations remain in place post-closing of the acquisition but no post-closing payments are expected to be made by either party in the ordinary course.

Due from Affiliates

The $2.5 million due from affiliates amount reported on the consolidated balance sheets as of September 30, 2020 primarily represents a receivable from certain affiliates of Brookfield, as a result of payments made by the Company on their behalf, primarily related to professional fees and rent for shared corporate headquarters. There was no right of set-off with respect to these receivables from affiliates and the payables to the other Brookfield affiliates described herein, and thus these amounts were separately reported in due from affiliate in the consolidated balance sheets.

Due to Affiliates

The $2.4 million due to affiliates amount reported in the unaudited condensed consolidated balance sheets as of September 30, 2020 represented payables to affiliates of Brookfield of (i) $1.7 million for services and fees incurred by an affiliate of Brookfield on behalf of the Company related to acquisitions in Spain, (ii) $0.3 million for O&M services payable to an affiliate of X-Elio and (iii) $0.4 million payables related to rent, office charges and other services to affiliates of Brookfield related to the Company's corporate headquarters in New York. The $11.5 million due to affiliates amount reported in the consolidated balance sheets as of December 31, 2019 represented (i) $8.6 million payables to affiliates of Brookfield for the Brookfield MSA base management fee for the fourth quarter of 2019, (ii) $1.4 million for services and fees incurred by an affiliate of Brookfield on behalf of the Company related to acquisitions in Spain, (iii) $0.6 million standby fee payable under the Sponsor Line, (iv) $0.5 million payable for commodity contracts executed on behalf of the Company on a cost-reimbursement basis, and (v) $0.4 million payables related to rent, office charges and other services to affiliates of Brookfield related to the Company' corporate headquarters in New York.

During the three and nine months ended September 30, 2020, the Company paid to affiliates of Brookfield (i) $13.8 million and $31.9 million, respectively for the Brookfield MSA base management fee, (ii) $0.2 million and $2.1 million, respectively for the standby fee payable under the Sponsor Line and (iii) $0.9 million and $1.9 million, respectively for leasehold improvements, rent, office charges and other services with affiliates of Brookfield. During the three and nine months ended September 30, 2019, the Company paid to affiliates of Brookfield (i) $5.9 million and $15.0 million for the Brookfield MSA base management fee and (ii) $2.1 million and $5.3 million, respectively, representing standby fee payable to a Brookfield affiliate under the Sponsor Line and for leasehold improvements, rent, office charges and other services with affiliates of Brookfield.

Cash Distributions Paid

During the three and nine months ended September 30, 2020, the Company paid cash distribution totaling $26.0 million and $117.0 million, respectively, to TERP NY, its indirect parent.

16. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following tables present the changes in each component of accumulated other comprehensive income (loss), net of tax:

(In thousands)	**Foreign Currency Translation Adjustments**	**Hedging Activities[1]**	**Accumulated Other Comprehensive Income**
Balance as of December 31, 2018	$ (8,405)	$ 68,730	$ 60,325
Other comprehensive (loss) income:			
Net unrealized (loss) gain arising during the period (net of zero and $2,506 tax benefit, respectively)	15,806	(43,907)	(28,101)
Reclassification of net realized gain into earnings (net of zero tax impact)	—	(2,439)	(2,439)
Other comprehensive income (loss)	15,806	(46,346)	(30,540)
Accumulated other comprehensive income	7,401	22,384	29,785
Less: Other comprehensive income attributable to non-controlling interests	—	920	920
Balance as of September 30, 2019	$ 7,401	$ 21,464	$ 28,865

(In thousands)	**Foreign Currency Translation Adjustments**	**Hedging Activities[1]**	**Accumulated Other Comprehensive Income (Loss)**
Balance as of December 31, 2019	$ 11,138	$ 20,656	$ 31,794
Other comprehensive (loss) income:			
Net unrealized gain (loss) arising during the period (net of zero and $5,531 tax benefit, respectively)	29,540	(42,065)	(12,525)
Reclassification of net realized gain into earnings (net of zero tax impact)	—	(1,948)	(1,948)
Other comprehensive income (loss)	29,540	(44,013)	(14,473)
Accumulated other comprehensive income (loss)	40,678	(23,357)	17,321
Less: Other comprehensive loss attributable to non-controlling interests	—	(705)	(705)
Balance as of September 30, 2020	$ 40,678	$ (22,652)	$ 18,026

(1) See *Note 11. Derivatives* for additional breakout of hedging gains and losses for interest rate swaps and commodity contracts in a cash flow hedge relationship and the foreign currency contracts designated as hedges of net investments in foreign operations.

17. NON-CONTROLLING INTERESTS

Non-controlling interests represent the portion of net assets in consolidated entities that are not owned by the Company and are reported as a component of equity in the unaudited condensed consolidated balance sheets. Non-controlling interests in subsidiaries that are redeemable either at the option of the holder or at fixed and determinable prices at certain dates in the future are classified as redeemable non-controlling interests in subsidiaries between liabilities and member's equity in the unaudited condensed consolidated balance sheets. Redeemable non-controlling interests that are currently redeemable or redeemable after the passage of time are adjusted to their redemption value as changes occur. However, the non-controlling interests balance cannot be less than the estimated redemption value.

The following table presents the activity of the redeemable non-controlling interests balance for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
(In thousands)	**2020**	**2019**
Balance as of January 1	$ 22,884	$ 33,495
Net income (loss)	(14)	(14,241)
Distributions	(286)	(852)
Repurchases of redeemable non-controlling interests, net[1]	(14,645)	(4,753)
Non-cash redemption of redeemable non-controlling interests	—	7,345
Balance as of September 30	$ 7,939	$ 20,994

(1) Represents the carrying amount of the redeemable non-controlling interests repurchased.

18. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing date of the unaudited condensed consolidated financial statements, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the unaudited condensed consolidated financial statements except for the transaction described below.

Sale of Non-Controlling Interests in Wind Projects in the U.S.

On October 8, 2020, the Company completed the sale of a gross 49.9% interest in an 852 MW portfolio of four wind projects located in the United States (the "Wind Portfolio"). The Company sold a 40% interest in the Wind Portfolio for $264.0 million net of working capital adjustments alongside a non-controlling owner who sold its entire 9.9% interest. Upon consummation of the sale, the Company retained a 50.1% controlling interest in the Wind Portfolio. The Company used the net proceeds of the sale to repay debt and for general corporate purposes.

Distribution

On October 23, 2020, the Company paid a distribution of $125 million to TERP NY, its indirect parent.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management's Discussion and Analysis for the three and nine months ended September 30, 2020, has been prepared as part of the reporting requirements under the (i) indenture dated December 12, 2017 governing the 4.25% senior notes due 2023, (ii) indenture dated December 12, 2017 governing the 5.00% senior notes due 2028 and (iii) indenture dated October 16, 2019 governing the 4.75% governing the senior notes due 2030, in each case issued by TerraForm Power Operating, LLC. The information presented is unaudited and should be read in conjunction with our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2020 and other disclosures included therein. References in this section to "we," "our," "us," or the "Company" refer to TerraForm Power Operating, LLC and its consolidated subsidiaries. The results shown herein are not necessarily indicative of the results to be expected in any future period.

Overview

TerraForm Power Operating, LLC ("Terra Operating" and, together with its subsidiaries, the "Company") is a Delaware limited liability company whose primary business strategy is to own and operate solar and wind assets in North America and Western Europe. Terra Operating, through its subsidiaries, owns and operates renewable energy facilities that have long-term contractual arrangements to sell the electricity generated by these facilities to third parties. The related green energy certificates, ancillary services and other environmental attributes generated by these facilities are also sold to third parties. Terra Operating is the wholly-owned direct subsidiary of TerraForm Power, LLC ("Terra LLC"). Terra LLC is controlled and majority owned by TerraForm Power NY Holdings, Inc. ("TERP NY"), the successor entity by merger to TerraForm Power, Inc. ("TERP Inc.") TERP NY is a holding company whose primary asset is its ownership of the majority of the membership interests in Terra LLC. Terra LLC is the managing member of Terra Operating and its primary asset is its ownership of 100% of the membership interests in Terra Operating.

As more fully described in *Note 15. Related Parties*, on July 31, 2020, TERP Inc., the entity that formerly was previously the direct owner of Terra LLC, merged with and into TERP NY, with TERP NY surviving the merger. As a result of the merger, through a series of related transactions, affiliates of Brookfield Renewable Partners L.P. ("Brookfield Renewable") acquired all of the outstanding shares of Class A common stock ("Common Stock") of TERP Inc., other than the approximately 62% already owned by Brookfield Renewable and its affiliates (the "Brookfield Renewable Merger"). As a result of the Brookfield Renewable Merger, effective July 31, 2020, the Company became a wholly-owned indirect subsidiary of Brookfield Renewable and its affiliates. The Company is a controlled affiliate of Brookfield Asset Management Inc. ("Brookfield"). As of September 30, 2020, Brookfield Renewable held 100% of the Common Stock of TERP NY. As of September 30, 2020, Brookfield owned approximately 51.5% of Brookfield Renewable on a fully-exchanged basis and the remaining approximately 48.5% is held by public investors.

Recent Developments

The Merger Transaction

On January 11, 2020, TERP Inc. received an unsolicited and non-binding proposal (the "Brookfield Proposal") from Brookfield Renewable, an affiliate of Brookfield, to acquire all of the outstanding shares of Common Stock of TERP Inc., other than the approximately 62% shares held by Brookfield Renewable and its affiliates. The Brookfield Proposal expressly conditioned the transaction contemplated thereby on the approval of a committee of the Board of Directors of TERP Inc. (the "Board") consisting solely of independent directors and the approval of a majority of the shares held by TERP Inc.'s stockholders not affiliated with Brookfield Renewable and its affiliates. Following TERP Inc.'s receipt of the Brookfield Proposal, the Board formed a Special Committee of non-executive, disinterested and independent directors (the "Special Committee") to, among other things, review, evaluate and consider the Brookfield Proposal and, if the Special Committee deemed appropriate, negotiate a transaction with Brookfield Renewable or explore alternatives thereto. The Board resolutions establishing the Special Committee expressly provided that the Board would not approve the transaction contemplated by the Brookfield Proposal or any alternative thereto without a prior favorable recommendation by the Special Committee.

On March 16, 2020, TERP Inc. entered into an Agreement and Plan of Reorganization (the "Reorganization Agreement"), by and among Brookfield Renewable, Brookfield Renewable Corporation, a corporation incorporated under the laws of British Columbia and an indirect subsidiary of Brookfield Renewable ("BEPC"), 2252876 Alberta ULC, an unlimited liability corporation incorporated under the laws of Alberta and a wholly owned direct subsidiary of Brookfield Renewable ("Acquisition Sub" and, together with Brookfield Renewable and BEPC, the "BEP Entities"), TERP Inc., and TERP NY, a New York corporation and a wholly owned direct subsidiary of the TERP Inc. (TERP NY together with TERP Inc., the

"Company Entities"). The Board, upon the unanimous recommendation of the Special Committee, and the Board of Directors of the general partner of Brookfield Renewable approved the Reorganization Agreement and the transactions contemplated thereby.

On July 31, 2020, pursuant to the Reorganization Agreement, Brookfield Renewable, through Acquisition Sub and BEPC, acquired all of the outstanding Common Stock of TERP Inc. not held by the Brookfield Stockholders (as defined below) (such shares, the "Public TERP Shares") through a series of transactions that include the Reincorporation Merger and the Share Exchange (each as defined below). Pursuant to the Reorganization Agreement and the Plan of Merger (as defined below), at the effective time of the Reincorporation Merger (the "Reincorporation Effective Time"), TERP Inc. merged with and into TERP NY, with TERP NY as the surviving corporation of such merger (the "Reincorporation Merger"), and (i) BBHC Orion Holdco L.P. ("BBHC Orion") and Orion U.S. Holdings I L.P. ("Orion U.S. and, together with BBHC Orion, the "Brookfield Stockholders"), each an affiliate of BEP, received shares of Class A common stock, par value $0.01, of TERP NY ("TERP NY Class A Common Stock"), (ii) holders of Public TERP Shares who did not elect to receive non-voting limited partnership units of BEP ("BEP Units") received shares of Class B common stock, par value $0.01, of TERP NY ("TERP NY Class B Common Stock"), and (iii) holders of Public TERP Shares who elected to receive BEP Units received shares of Class C common stock, par value $0.01, of TERP NY ("TERP NY Class C Common Stock"). Immediately thereafter, at the effective time of the Share Exchange (as defined below) (the "Exchange Effective Time"), (i) pursuant to a binding share exchange, BEPC acquired each share of TERP NY Class B Common Stock issued and outstanding after the Reincorporation Effective Time in exchange for the right to receive Class A exchangeable subordinate voting shares, no par value, of BEPC (the "BEPC Shares") and cash in lieu of fractional BEPC Shares (the "BEPC Exchange") and (ii) pursuant to a binding share exchange, Acquisition Sub acquired each share of TERP NY Class C Common Stock issued and outstanding after the Reincorporation Effective Time in exchange for the right to receive BEP Units and cash in lieu of fractional BEP Units (the "BEP Exchange" and, together with the BEPC Exchange, the "Share Exchange" and, together with the Reincorporation Merger, the "Merger Transaction").

Pursuant to the Share Exchange, each holder of Public TERP Shares was entitled to receive for each Public TERP Share held by such holder as consideration 0.381 of a BEPC Share or, at the election of such holder, 0.381 of a BEP Unit, in each case as adjusted for the BEPC Distribution (as defined and described below) (such 0.381 exchange ratio as adjusted, the "Adjusted Exchange Ratio") plus any cash paid in lieu of fractional BEP Units or BEPC Shares, as applicable (the "Consideration"). Holders of Public TERP Shares who did not make any election received BEPC Shares. There was no limit on the number of Public Shares that could elect to receive BEPC Shares or BEP units. The BEPC Shares are structured with the intention of being economically equivalent to the BEP Units, including identical distributions, as and when declared, and will be fully exchangeable at any time, at the option of holders of such BEPC Shares, for a BEP Unit, initially on a one-for-one basis, subject to adjustment for certain events.

For a detailed description of the Reorganization Agreement, see *Note 15. Related Parties* to our unaudited condensed consolidated financial statements.

U.S. Project Financing

On September 22, 2020, we entered into a new non-recourse debt financing agreement issuing $296.4 million of 3.38% senior notes secured by a portfolio of approximately 250.0 MW of distributed generation facilities located in the U.S. We used the net proceeds of this financing to repay a portion of the Bridge Facility. The senior notes mature on December 31, 2043, and amortize on an approximately twenty-three year sculpted amortization schedule.

Changes within Our Portfolio

The following table provides an overview of the changes within our portfolio from December 31, 2019 through September 30, 2020:

Description	Facility Type	Nameplate Capacity (MW)[1]	Number of Sites	Weighted Average Remaining Duration of PPA (Years)[2]
Total Portfolio as of December 31, 2019		4,120.6	4,936	13
Acquisition of Termosol 1 & 2	Concentrated Solar Power	99.8	2	18
Total Portfolio as of September 30, 2020		4,220.4	4,938	12

(1) Nameplate capacity represents the maximum generating capacity of a facility as expressed in direct current ("DC") for all facilities within our Solar segment and alternating current ("AC") for all facilities within our Wind and Regulated Solar and Wind segments.
(2) Weighted average remaining duration of PPA (years) represents the weighted-average remaining term of PPAs and is calculated as of December 31, 2019 and September 30, 2020.

Our Portfolio

Our current portfolio consists of renewable energy facilities located in the United States (including Puerto Rico) (the "U.S."), Canada, Spain, Portugal, the United Kingdom (the "U.K."), Chile and Uruguay with a combined nameplate capacity of approximately 4,220 MW as of September 30, 2020. These renewable energy facilities generally have long-term PPAs with creditworthy counterparties. As of September 30, 2020, on a weighted-average basis (based on MW), our PPAs had a weighted-average remaining life of 12 years and our counterparties to our PPAs had, on average, an investment grade credit rating.

The following table lists the renewable energy facilities that comprise our portfolio as of September 30, 2020:

Description	Nameplate Capacity (MW)[1]	Number of Sites	Weighted Average Remaining Duration of PPA (Years)[2]
Distributed Generation:			
U.S. Solar[3]	709.8	751	14
U.S. Residential Rooftops	21.2	4,068	14
U.S. Fuel Cells	10.0	9	16
Canada Solar	8.5	20	13
Total Distributed Generation	749.5	4,848	14
Solar Utility:			
U.S.	498.6	20	17
Canada	59.4	4	14
U.K.	11.1	1	9
Chile	101.6	1	14
Total Solar Utility	670.7	26	16
Regulated Solar and Wind[4]:			
Spain	936.8	35	13
Wind Utility:			
U.S.	1,546.2	17	10
Canada	78.0	1	11
Portugal	143.8	9	8
Uruguay	95.4	2	17
Total Wind Utility	1,863.4	29	10
Total Renewable Energy Facilities	4,220.4	4,938	12

(1) Nameplate capacity represents the maximum generating capacity of a facility as expressed in DC for all facilities within our Solar reportable segment and AC for all facilities within our Wind and Regulated Solar and Wind segments.
(2) Represents the weighted-average term of remaining PPA and calculated as of September 30, 2020.
(3) Includes a Delayed Project with an aggregate nameplate capacity of 4.2 MW. See *Note 3. Acquisitions* to our unaudited condensed consolidated financial statements for additional details.
(4) Represents our solar and wind operations in Spain.

Business Segments

We have three reportable segments: Solar, Wind, and Regulated Solar and Wind. These segments, which represent our entire portfolio of renewable energy facilities, have been determined based on the management approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the reportable segments. Our reportable segments represent an aggregation of operating segments. An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and that has discrete financial information that is regularly reviewed by the chief operating decision makers ("CODM") in deciding how to allocate resources. Our Chief Executive Officer and Chief Financial Officer have been identified as the CODMs.

Our operating segments consist of: (i) Distributed Generation, North America Solar Utility and International Solar Utility, which are aggregated into the Solar reportable segment; (ii) Northeast Wind, Central Wind, Texas Wind, Hawaii Wind, Portugal Wind and Uruguay Wind operating segments, which are aggregated into the Wind reportable segment; and (iii) the Spanish Regulated Solar and Spanish Regulated Wind operating segments that are aggregated within the Regulated Solar and Wind reportable segment. The operating segments have been aggregated as they have similar economic characteristics and meet the aggregation criteria. The CODMs evaluate the performance of our operating segments principally based on operating income or loss. Corporate expenses include general and administrative expenses, acquisition costs, interest expense on corporate-level indebtedness, stock-based compensation and depreciation expense. All net operating revenues for the three and nine months ended September 30, 2020 and 2019 were earned by our reportable segments from external customers in the United States (including Puerto Rico), Canada, Spain, Portugal, the United Kingdom, Uruguay and Chile.

Key Metrics

Operating Metrics

Nameplate capacity

We measure the electricity-generating production capacity of our renewable energy facilities in nameplate capacity. Rated capacity is the expected maximum output a power generation system can produce without exceeding its design limits. We express nameplate capacity in (i) DC, for all facilities within our Solar segment and (ii) AC, for all facilities within our Wind and Regulated Solar and Wind segments. The size of our renewable energy facilities varies significantly among the assets comprising our portfolio. We believe the combined nameplate capacity of our portfolio is indicative of our overall production capacity and period to period comparisons of our nameplate capacity are indicative of the growth rate of our business. Our renewable energy facilities had a combined nameplate capacity of approximately 4,220 MW and 4,121 MW as of September 30, 2020 and December 31, 2019, respectively.

Gigawatt hours sold

Gigawatt hours ("GWh") sold refers to the actual volume of electricity sold by our renewable energy facilities during a particular period. We track GWh sold as an indicator of our ability to realize cash flows from the generation of electricity at our renewable energy facilities. Our GWh sold for renewable energy facilities for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In GWh)	**2020**	**2019**	**2020**	**2019**
Solar segment	597	532	1,698	1,448
Wind segment	1,101	1,048	4,036	4,076
Regulated Solar and Wind segment	630	483	1,524	1,388
Total	2,328	2,063	7,258	6,912

Consolidated Results of Operations

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating revenues, net	$ 296,170	$ 253,808	$ 820,261	$ 734,506
Operating costs and expenses:				
Cost of operations	69,769	75,037	189,559	207,363
General and administrative expenses	34,333	16,360	79,369	62,054
General and administrative expenses - affiliate	4,189	7,764	25,347	19,087
Depreciation, accretion and amortization expense	135,795	114,282	386,094	321,605
Total operating costs and expenses	244,086	213,443	680,369	610,109
Operating income	52,084	40,365	139,892	124,397
Other expenses (income):				
Interest expense, net	84,044	89,393	247,335	246,721
Loss (gain) on modification and extinguishment of debt, net	—	1,355	3,593	(4,188)
(Gain) loss on foreign currency exchange, net	(32,737)	10,975	(37,724)	(4,217)
Other income, net	(2,001)	(557)	(9,140)	(1,752)
Total other expenses, net	49,306	101,166	204,064	236,564
Income (loss) before income tax expense	2,778	(60,801)	(64,172)	(112,167)
Income tax expense	1,846	1,512	2,410	3,030
Net income (loss)	932	(62,313)	(66,582)	(115,197)
Less: Net loss attributable to redeemable non-controlling interests	(35)	(7,341)	(14)	(14,241)
Less: Net loss attributable to non-controlling interests	(9,577)	(135)	(35,046)	(33,897)
Net income (loss) attributable to member's equity	$ 10,544	$ (54,837)	$ (31,522)	$ (67,059)

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

Operating Revenues, net

Operating revenues, net and GWh sold for the three months ended September 30, 2020 and 2019 and nameplate capacity as of September 30, 2020 and December 31, 2019, were as follows:

(In thousands, except for GWh sold)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Change
Solar	$ 111,972	$ 101,654	$ 10,318
Wind	56,052	54,507	1,545
Regulated Solar and Wind	128,146	97,647	30,499
Total operating revenues, net	$ 296,170	$ 253,808	$ 42,362
GWh sold:	**2020**	**2019**	**Change**
Solar	597	532	65
Wind	1,101	1,048	53
Regulated Solar and Wind	630	483	147
Total GWh sold	2,328	2,063	265

(In MW)	September 30, 2020	December 31, 2019	Change
Solar	1,420	1,420	—
Wind	1,864	1,864	—
Regulated Solar and Wind	937	837	100
Total nameplate capacity (MW)	4,221	4,121	100

Total operating revenues, net during the three months ended September 30, 2020 compared to the same period in 2019, increased by $42.4 million primarily driven by contributions from distributed generation facilities in the U.S. acquired after the second half of 2019 and contributions from acquisitions of solar PV and CSP facilities made in the fourth quarter of 2019 and the first quarter of 2020.

Costs of Operations

Cost of operations decreased by $5.3 million during the three months ended September 30, 2020 compared to the same period in 2019, primarily due to a reduction in costs at North American wind plants driven by general decreases in operating costs such as repairs and maintenance and losses on disposal of major components of certain wind power plants following the substantial completion of our blade repair program that was initiated in 2019, and reduced O&M costs payable to our existing service provider at our North American fleet as a compensation to lower generation than a certain guaranteed amount per the long-term service agreement framework.

General and Administrative Expenses

Total general and administrative expenses, including those related to affiliates, increased by $14.4 million during the three months ended September 30, 2020, compared to the same period in 2019, primarily due to incurring merger expenses comprising of investment bankers, legal and other professional fees.

Depreciation, Accretion and Amortization Expense

Depreciation, accretion and amortization expense increased by $21.5 million during the three months ended September 30, 2020, compared to the same period in 2019. This increase was in relation to our growing portfolio of renewable energy facilities from acquisitions in the U.S. and Spain, as well as capital additions placed in service after the first quarter of 2019.

Interest Expense, Net

Interest expense, net for the three months ended September 30, 2020 and 2019 were as follows:

	Three Months Ended September 30,		
(In thousands)	**2020**	**2019**	**Change**
Corporate-level	$ 26,040	$ 28,798	$ (2,758)
Project-level	58,004	60,595	(2,591)
Total interest expense, net	$ 84,044	$ 89,393	$ (5,349)

Interest expense, net decrease by $5.3 million during the three months ended September 30, 2020, compared to the same period in 2019, primarily driven by decreased outstanding Corporate obligations and lower mark-to-market losses on interest rate swaps not designated in a cash flow hedging relationship.

Gain on Foreign Currency Exchange, net

Gains and losses on foreign currency exchanges primarily include the transaction gains and losses and changes in fair value of our foreign exchange derivative contracts not accounted for under hedge accounting, and exchange differences on intercompany loans that are not of a long-term investment nature. We recognized a net gain on foreign currency exchange of $32.7 million primarily due to a gain of $33.4 million on the remeasurement of intercompany loans that are primarily denominated in Euros, partially offset by net realized and unrealized loss of $0.4 million on foreign currency derivative contracts for the three months ended September 30, 2020. We recognized a net loss on foreign currency exchange of $11.0 million primarily due to a loss of $30.2 million on the remeasurement of intercompany loans that are primarily denominated in Euros, partially offset by net realized and unrealized gain $19.7 million related to foreign currency derivative contracts for the three months ended September 30, 2019.

Other Income, net

We recognized $2.0 million of other income, net for the three months ended September 30, 2020, compared to $0.6 million of other expenses, net for the three months ended September 30, 2019. The balance is primarily comprised of miscellaneous expenses, non-operating expenses and losses net of recoveries and reimbursements.

Income Tax Expense

Income tax expense was $1.8 million for the three months ended September 30, 2020, compared to $1.5 million during the same period in 2019. The overall effective tax rate for the three and nine months ended September 30, 2020 and 2019 was different than the statutory rate of 21% and was primarily due to U.S. losses not subject to tax. As a limited liability company, the Company's U.S. taxable losses are allocated to its member. Therefore, there is no U.S. federal or state tax provision or liability for U.S. federal or state income taxes included in the Company's condensed and consolidated financial statements except for certain foreign entities that are subject to corporate tax.

Net Loss Attributable to Non-Controlling Interests

Net loss attributable to non-controlling interests, including redeemable non-controlling interests, was $9.6 million for the three months ended September 30, 2020, compared to $7.5 million for the three months ended September 30, 2019 and represents the net share of profits and losses in our partially owned subsidiaries in which we have a controlling interest. The $2.1 million increase was driven by higher allocations of losses to project-level tax equity partnerships and non-controlling interests in our partially owned subsidiaries in which we have a controlling interest.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Operating Revenues, net

Operating revenues, net and GWh sold for the nine months ended September 30, 2020 and 2019 and nameplate capacity as of September 30, 2020 and December 31, 2019, were as follows:

	Nine Months Ended September 30,		
(In thousands, except for GWh sold)	**2020**	**2019**	**Change**
Solar	$ 289,948	$ 241,593	$ 48,355
Wind	202,409	223,982	(21,573)
Regulated Solar and Wind	327,904	268,931	58,973
Total operating revenues, net	$ 820,261	$ 734,506	$ 85,755
GWh sold:	**2020**	**2019**	**Change**
Solar	1,698	1,448	250
Wind	4,036	4,076	(40)
Regulated Solar and Wind	1,524	1,388	136
Total GWh sold	7,258	6,912	346

(In MW)	**September 30, 2020**	**December 31, 2019**	**Change**
Solar	1,420	1,420	—
Wind	1,864	1,864	—
Regulated Solar and Wind	937	837	100
Total nameplate capacity (MW)	4,221	4,121	100

Total operating revenues, net during the nine months ended September 30, 2020, compared to the same period in 2019, increased by $85.8 million primarily driven by contributions from distributed generation facilities in the U.S. acquired after the second half of 2019 and contributions from acquisitions of solar PV and CSP facilities made in the fourth quarter of 2019 and the first quarter of 2020.

Costs of Operations

Total cost of operations decreased by $17.8 million during the nine months ended September 30, 2020 compared to the same period in 2019, primarily due to a reduction in costs at North American wind plants driven by general decreases in operating costs such as repairs and maintenance and losses on disposal of major components of certain wind power plants following the substantial completion of our blade repair program that was initiated in 2019, and reduced O&M costs payable to our existing service provider at our North American fleet as a compensation to lower generation than a certain guaranteed amount per the long-term service agreement framework.

General and Administrative Expenses

Total general and administrative expenses increased by $23.6 million during the nine months ended September 30, 2020, compared to the same period in 2019, primarily due to incurring merger expenses comprising of investment bankers, legal and other professional fees.

Depreciation, Accretion and Amortization Expense

Depreciation, accretion and amortization expense increased by $64.5 million during the nine months ended September 30, 2020, compared to the same period in 2019. This increase was in relation to our growing portfolio of renewable energy facilities from acquisitions in the U.S. and Spain, as well as capital additions placed in service after the first quarter of 2019.

Interest Expense, Net

Interest expense, net for the nine months ended September 30, 2020 and 2019 were as follows:

	Nine Months Ended September 30, 2020		
(In thousands)	**2020**	**2019**	**Change**
Corporate-level	$ 79,681	$ 89,316	$ (9,635)
Project-level	167,654	157,405	10,249
Total interest expense, net	$247,335	$246,721	$ 614

Interest expense, net increased by $0.6 million during the nine months ended September 30, 2020, compared to the same period in 2019. Interest expense, net at our Corporate segment decreased by $9.6 million primarily driven by decreased outstanding Corporate obligations following the refinancing activities that took place in the fourth quarter of 2019, which included the termination of our Senior Notes due 2025, the termination of our Term Loan, the substantial repayment of our Revolver, and the issuance of our Senior Notes due 2030. Project-level interest expense, net increased by $10.2 million primarily due to increased outstanding obligations and higher mark-to-market losses on interest rate swaps not designated in a cash flow hedging relationship.

Loss on Modification and Extinguishment of Debt, net

Losses or gains on modification and extinguishment of debt, net include prepayment penalties, the write-off of unamortized deferred financing costs and debt premiums or discounts, costs incurred in a debt modification that are not capitalized as deferred financing costs, other costs incurred in relation to debt extinguishment, and any gain from the redemption of debt below its carrying amount. We incurred a net loss on modification and extinguishment of debt of $3.6 million for the nine months ended September 30, 2020, related to the refinancing of the debt of associated with a 218.0 MW utility-scale wind power plants located in the U.S. We recognized a gain on extinguishment of debt of $4.2 million for the nine months ended September 30, 2019 due to the redemption of certain financing lease obligations within our distributed generation Solar portfolio. See *Note 9. Long-term Debt* to our unaudited condensed consolidated financial statements for additional details.

Gain on Foreign Currency Exchange, net

Gains and losses on foreign currency exchanges primarily include the transaction gains and losses and changes in fair value of our foreign exchange derivative contracts not accounted for under hedge accounting, and exchange differences on intercompany loans that are not of a long-term investment nature. We recognized a net gain on foreign currency exchange of $37.7 million and $4.2 million for the nine months ended September 30, 2020 and 2019, respectively, comprising a gain of $33.6 million and a loss of $35.5 million on the remeasurement of intercompany loans and net realized and unrealized gains of $4.2 million and $39.6 million, respectively, on foreign currency derivative contracts.

Other Income, net

We recognized $9.1 million and $1.8 million, of other income, net for the nine months ended September 30, 2020 and 2019, respectively. The balance is primarily comprised of miscellaneous expenses non-operating expenses and losses net of recoveries and reimbursements.

Income Tax Expense

Income tax expense was $2.4 million for the nine months ended September 30, 2020, compared to $3.0 million during the same period in 2019. The expense for the current period was primarily driven by profits generated by certain foreign subsidiaries, whereas for the same period in 2019, we recognized an expense in relation to profits generated by foreign subsidiaries. The overall effective tax rate for the three and nine months ended September 30, 2020 and 2019 was different than the statutory rate of 21% and was primarily due to U.S. losses not subject to tax. As a limited liability company, the Company's U.S. taxable losses are allocated to its member. Therefore, there is no U.S. federal or state tax provision or liability for U.S. federal or state income taxes included in the Company's condensed and consolidated financial statements except for certain foreign entities that are subject to corporate tax.

Net Loss Attributable to Non-Controlling Interests

Net loss attributable to non-controlling interests, including redeemable non-controlling interests, was $35.1 million for the nine months ended September 30, 2020, compared to $48.1 million for the nine months ended September 30, 2019. The $13.0 million decrease was driven by lower allocations of losses to project-level tax equity partnerships and non-controlling interests in our partially owned subsidiaries in which we have a controlling interest.

Non-GAAP Financial Measures

This Quarterly Report contains references to Adjusted Revenue and Adjusted EBITDA, which are supplemental Non-GAAP measures that should not be viewed as alternatives to GAAP measures of performance, including revenue, net income (loss) or operating income. Our definitions and calculation of these supplemental Non-GAAP measures may differ from definitions of Adjusted Revenue and Adjusted EBITDA or other similarly titled measures used by other companies. We believe that Adjusted Revenue and Adjusted EBITDA are useful supplemental measures that may assist stakeholders and others in assessing the financial performance of the Company. None of these Non-GAAP measures should be viewed as the sole measure of our performance, nor should they be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with GAAP, which are available on our website at www.terraformpower.com. We encourage you to review, and evaluate the basis for, each of the adjustments made to arrive at Adjusted Revenue and Adjusted EBITDA.

Calculation of Non-GAAP Measures

We define Adjusted Revenue as operating revenues, net, adjusted for non-cash items, including (i) unrealized gain/loss on derivatives, net (ii) amortization of favorable and unfavorable rate revenue contracts, net, and (iii) other items that we believe are representative of our core business or future operating performance.

We define Adjusted EBITDA as net income (loss) plus (i) depreciation, accretion and amortization, (ii) interest expense, (iii) non-operating general and administrative costs, (iv) acquisition and related costs, (v) income tax (benefit) expense, (vi) management fees to Brookfield, and (vii) certain other non-cash charges, unusual or non-recurring items and other items that we believe are not representative of our core business or future operating performance.

Use of Non-GAAP Measures

We disclose Adjusted Revenue because it presents the component of operating revenue that relates to energy production from our plants, and is, therefore, useful to investors and other stakeholders in evaluating performance of our renewable energy assets and comparing that performance across periods in each case without regard to non-cash revenue items.

We disclose Adjusted EBITDA because we believe it is useful to investors and other stakeholders as a measure of our financial and operating performance and debt service capabilities. We believe Adjusted EBITDA provides an additional tool to investors and securities analysts to compare our performance across periods without regard to interest expense, taxes and depreciation and amortization. Adjusted EBITDA has certain limitations, including that it: (i) does not reflect cash expenditures or future requirements for capital expenditures or contractual liabilities or future working capital needs, (ii) does not reflect the significant interest expenses that we expect to incur or any income tax payments that we may incur, and (iii) does not reflect depreciation and amortization and, although these charges are non-cash, the assets to which they relate may need to be replaced in the future, and (iv) does not take into account any cash expenditures required to replace those assets. Adjusted EBITDA also includes adjustments for impairment charges, gains and losses on derivatives and foreign currency swaps, acquisition related costs and items we believe are infrequent.

The adjustments made to Adjusted EBITDA for infrequent, unusual or non-recurring items and items that we do not believe are representative of our core business involve the application of management’s judgment, and the presentation of Adjusted EBITDA should not be construed to infer that our future results will be unaffected by infrequent, non-operating, unusual or non-recurring items.

In addition, these Non-GAAP measures are used by our management for internal planning purposes, including for certain aspects of our consolidated operating budget, as well as evaluating the attractiveness of investments and acquisitions. We believe these Non-GAAP measures are useful as a planning tool because they allow our management to compare performance across periods on a consistent basis in order to more easily view and evaluate operating and performance trends and as a means of forecasting operating and financial performance and comparing actual performance to forecasted expectations. For these reasons, we also believe these Non-GAAP measures are also useful for communicating with investors and other stakeholders.

The following table reconciles our Net income (loss) to Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020				
(In thousands)	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	$ 38,080	$ (25,412)	$ 20,934	$ (23,058)	$ 10,544
Net loss attributable to redeemable and non-redeemable non-controlling interests	10	(9,622)	—	—	(9,612)
Net loss attributable to member's equity	38,090	(35,034)	20,934	(23,058)	932
Depreciation, accretion and amortization expense[1]	37,402	62,146	49,177	369	149,094
Interest expense, net	18,712	14,437	24,855	26,040	84,044
Non-operating general and administrative expenses[2]	784	330	—	22,392	23,506
Stock-based compensation expense	—	—	—	330	330
Acquisition costs, including affiliate	—	—	1	109	110
Income tax expense (benefit)	1,849	61	3	(67)	1,846
Management Fee[3]	—	—	—	3,944	3,944
Other non-cash or non-operating items[4]	2,577	2,980	1,875	(33,422)	(25,990)
Adjusted EBITDA	$ 99,414	$ 44,920	$ 96,845	$ (3,363)	$ 237,816

	Three Months Ended September 30, 2019				
(In thousands)	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	$ 45,432	$ (46,405)	$ 9,473	$ (63,337)	$ (54,837)
Net loss attributable to redeemable and non-redeemable non-controlling interests	(4,826)	(2,650)	—	—	(7,476)
Net loss attributable to member's equity	40,606	(49,055)	9,473	(63,337)	(62,313)
Depreciation, accretion and amortization expense[1]	31,770	59,972	34,958	520	127,220
Interest expense, net	17,302	16,220	27,073	28,798	89,393
Non-operating general and administrative expenses[2]	(396)	—	—	6,157	5,761
Stock-based compensation expense	—	—	—	265	265
Loss on extinguishment of debt	1,355	—	—	—	1,355
Acquisition costs, including affiliate	—	—	—	963	963
Income tax expense (benefit)	3,654	401	(2,543)	—	1,512
Management Fee[3]	—	—	—	7,459	7,459
Other non-cash or non-operating items[4]	(3,926)	8,777	3,355	13,205	21,411
Adjusted EBITDA	$ 90,365	$ 36,315	$ 72,316	$ (5,970)	$ 193,026

(In thousands)	Nine Months Ended September 30, 2020 Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	$ 70,382	$ (11,240)	$ 34,285	$ (124,949)	$ (31,522)
Net loss attributable to redeemable and non-redeemable non-controlling interests	(5,703)	(29,357)	—	—	(35,060)
Net loss attributable to member's equity	64,679	(40,597)	34,285	(124,949)	(66,582)
Depreciation, accretion and amortization expense[1]	114,284	164,266	140,273	1,023	419,846
Interest expense, net	61,968	43,662	62,023	79,682	247,335
Non-operating general and administrative expenses[2]	1,874	2,052	—	39,048	42,974
Stock-based compensation expense	—	—	—	986	986
Loss on extinguishment and modification of debt	—	3,593	—	—	3,593
Acquisition costs, including affiliate	—	—	(903)	2,146	1,243
Income tax expense (benefit)	1,134	(361)	1,637	—	2,410
Management Fee[3]	—	—	—	23,319	23,319
Other non-cash or non-operating items[4]	6,181	4,032	3,555	(37,956)	(24,188)
Adjusted EBITDA	$ 250,120	$ 176,647	$ 240,870	$ (16,701)	$ 650,936

(In thousands)	Nine Months Ended September 30, 2019 Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	$ 90,403	$ (36,359)	$ 32,642	$ (153,745)	$ (67,059)
Net loss attributable to redeemable and non-redeemable non-controlling interests	(16,747)	(31,391)	—	—	(48,138)
Net loss attributable to member's equity	73,656	(67,750)	32,642	(153,745)	(115,197)
Depreciation, accretion and amortization expense[1]	90,160	169,476	102,955	1,126	363,717
Interest expense, net	46,693	45,173	65,539	89,316	246,721
Non-operating general and administrative expenses[2]	1,645	1,998	—	22,605	26,248
Stock-based compensation expense	—	—	—	468	468
Gain on extinguishment and modification of debt	(4,188)	—	—	—	(4,188)
Acquisition costs, including affiliate	—	—	—	1,438	1,438
Income tax expense	1,533	830	553	114	3,030
Management Fee[3]	—	—	—	18,274	18,274
Other non-cash or non-operating items[4]	(200)	17,431	1,025	(221)	18,035
Adjusted EBITDA	$ 209,299	$ 167,158	$ 202,714	$ (20,625)	$ 558,546

(1) Includes reductions/(increases) within operating revenues due to net amortization of favorable and unfavorable rate revenue contracts as detailed in the reconciliation of Adjusted Revenue, and losses on disposal of renewable energy facilities.

(2) Includes non-operating items and other items incurred directly by the Company that we do not consider indicative of our core business operations are treated as an addback in the reconciliation of net loss to Adjusted EBITDA. These items include, but are not limited to, extraordinary costs and expenses related primarily to IT system arrangements, relocation of the headquarters to New York, and legal, third party diligence, contractor fees and advisory fees associated with acquisitions, dispositions, financings, and other non-recurring activities.
(3) Represents management fee that is not included in Direct operating costs.
(4) Represents other non-cash or non-operating items as detailed in the reconciliation of Adjusted Revenue and associated footnote and certain other items that we believe are not representative of our core business or future operating performance, including but not limited to: loss/(gain) on foreign exchange ("FX"), unrealized loss on commodity contracts, and one-time blade repairs related to the preparation for GE transition.

The following table reconciles our Operating revenues, net to Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020				
(In thousands)	**Solar**	**Wind**	**Regulated Solar and Wind**	**Corporate**	**Total**
Operating revenues, net	$ 111,972	$ 55,974	$ 128,224	$ —	$ 296,170
Unrealized loss on commodity contract derivatives, net[1]	—	1,366	—	—	1,366
Amortization of favorable and unfavorable rate revenue contracts, net[2]	1,580	8,078	—	—	9,658
Adjusted Revenue	113,552	65,418	128,224	—	307,194
Direct operating costs	(14,138)	(20,498)	(31,379)	(6,504)	(72,519)
Settled FX gain	—	—	—	3,141	3,141
Adjusted EBITDA	$ 99,414	$ 44,920	$ 96,845	$ (3,363)	$ 237,816

	Three Months Ended September 30, 2019				
(In thousands)	**Solar**	**Wind**	**Regulated Solar and Wind**	**Corporate**	**Total**
Operating revenues, net	$ 101,555	$ 54,607	$ 97,646	$ —	$ 253,808
Unrealized gain on commodity contract derivatives, net[1]	—	(1,277)	—	—	(1,277)
Amortization of favorable and unfavorable rate revenue contracts, net[2]	2,017	7,774	—	—	9,791
Other items[3]	549	(263)	(4,008)	—	(3,722)
Adjusted Revenue	104,121	60,841	93,638	—	258,600
Direct operating costs	(13,756)	(24,526)	(21,322)	(8,085)	(67,689)
Settled FX gain	—	—	—	2,115	2,115
Adjusted EBITDA	$ 90,365	$ 36,315	$ 72,316	$ (5,970)	$ 193,026

(In thousands)	Nine Months Ended September 30, 2020 Solar	Wind	Regulated Solar and Wind	Corporate	Total
Operating revenues, net	$ 289,947	$ 202,409	$ 327,905	$ —	$ 820,261
Unrealized loss on commodity contract derivatives, net[1]	—	6,346	—	—	6,346
Amortization of favorable and unfavorable rate revenue contracts, net[2]	5,618	24,027	—	—	29,645
Adjusted Revenue	295,565	232,782	327,905	—	856,252
Direct operating costs	(45,445)	(56,135)	(87,035)	(23,257)	(211,872)
Settled FX gain	—	—	—	6,556	6,556
Adjusted EBITDA	$ 250,120	$ 176,647	$ 240,870	$ (16,701)	$ 650,936

(In thousands)	Nine Months Ended September 30, 2019 Solar	Wind	Regulated Solar and Wind	Corporate	Total
Operating revenues, net	$ 241,593	$ 223,982	$ 268,931	$ —	$ 734,506
Unrealized gain on commodity contract derivatives, net[1]	—	(3,840)	—	—	(3,840)
Amortization of favorable and unfavorable rate revenue contracts, net[2]	5,330	23,315	—	—	28,645
Other items[3]	1,116	—	—	—	1,116
Adjusted Revenue	248,039	243,457	268,931	—	760,427
Direct operating costs	(38,740)	(76,299)	(66,217)	(25,510)	(206,766)
Settled FX gain	—	—	—	4,885	4,885
Adjusted EBITDA	$ 209,299	$ 167,158	$ 202,714	$ (20,625)	$ 558,546

(1) Represents unrealized (gain)/loss on commodity contracts associated with energy derivative contracts that are accounted for at fair value with the changes recorded in operating revenues, net. The amounts added back represent changes in the value of the energy derivative related to future operating periods, and are expected to have little or no net economic impact since the change in value is expected to be largely offset by changes in value of the underlying energy sale in the spot or day-ahead market.

(2) Represents net amortization of purchase accounting related to intangibles arising from past business combinations related to favorable and unfavorable rate revenue contracts.

(3) Primarily represents insurance compensation for revenue losses, transmission capacity revenue, and adjustments for solar renewable energy certificate (“SREC”) recognition and other income due to timing.

Liquidity and Capital Resources

Capitalization

A key element to our financing strategy is to raise the majority of our debt in the form of project specific non-recourse borrowings at our subsidiaries with investment grade metrics. Going forward, we intend to primarily finance acquisitions or growth capital expenditures using long-term non-recourse debt that fully amortizes within the asset's contracted life at investment grade metrics, as well as retained cash flows from operations, issuance of equity securities through public markets and opportunistic sales of projects, portfolios of projects, or of non-controlling interests in projects or portfolios of projects.

The following table summarizes the total capitalization and debt to capitalization percentage as of September 30, 2020 and December 31, 2019:

(In thousands)	September 30, 2020	December 31, 2019
Revolving Credit Facilities[1]	$ 109,000	$ —
Senior Notes[2]	1,900,000	1,900,000
Non-recourse long-term debt, including current portion[3]	4,896,764	4,388,469
Long-term indebtedness, including current portion[4]	6,905,764	6,288,469
Total member's equity and redeemable non-controlling interests	2,402,071	2,630,792
Total capitalization	$ 9,307,835	$ 8,919,261
Debt to total capitalization	74 %	71 %

(1) Represents the amounts drawn under our Revolver, and does not include the $122.2 million of outstanding project-level letters of credit.
(2) Represents corporate senior notes.
(3) Represents asset-specific, non-recourse borrowings and financing lease obligations secured against the assets of certain project companies.
(4) Represents the total principal due for long-term debt and financing lease obligations, including the current portion, which excludes $53.4 million and $53.1 million of net unamortized debt premiums, discounts and deferred financing costs as of September 30, 2020 and December 31, 2019, respectively.

Liquidity Position

We believe we operate with sufficient liquidity to enable us to fund near-term cash distributions, growth initiatives, capital expenditures and withstand sudden adverse changes in economic circumstances or short-term fluctuations in resources. The principal sources of funding are cash flows from operations, revolving credit facilities (including our Revolver and Sponsor Line as discussed and defined below), unused debt capacity at our projects, non-core asset sales and proceeds from the issuance of debt or equity securities through public markets. We actively refinance our non-recourse debt across our portfolio to extend our maturity profile and benefit from any decline in interest rates.

As of September 30, 2020, our current liabilities exceeded our current assets by $330.1 million. We do not believe this deficit in working capital has an adverse impact on our cash flows, liquidity or operations since our current liabilities include $154.3 million of long-term non-recourse debt classified as current due to defaults that existed at September 30, 2020. We believe there is a reasonable likelihood that we will be, in due course, able to successfully negotiate waivers with the lenders and/or cure the existing defaults. We do not expect any of our financing agreements to be accelerated and we were not notified by any of our lenders to elect to enforce project security interests. See *Note 9. Long-term debt* to our unaudited condensed consolidated financial statements for additional details.

The following table summarizes corporate liquidity and available capital as of September 30, 2020 and December 31, 2019:

(In thousands)	September 30, 2020	December 31, 2019
Unrestricted corporate cash	$ 7,198	$ 54,419
Project-level distributable cash	58,447	44,556
Cash available to corporate	65,645	98,975
Credit facilities:		
Committed revolving credit facility	800,000	800,000
Drawn portion of revolving credit facilities	(109,000)	—
Revolving line of credit commitments	(122,188)	(115,549)
Undrawn portion of Sponsor Line[1]	—	500,000
Available portion of credit facilities	568,812	1,184,451
Corporate liquidity	634,457	1,283,426
Other project-level unrestricted cash	160,500	138,505
Project-level restricted cash	114,811	112,020
Available capital	$ 909,768	$ 1,533,951

(1) Represents a $500.0 million secured revolving credit facility (the "Sponsor Line") with Brookfield and one of its affiliates that may only be used to fund all or a portion of certain funded acquisitions or growth capital expenditures. On July 31, 2020, the Sponsor Line was terminated upon the completion of the Merger Transactions as discussed in *Note 15. Related Parties* to our unaudited condensed consolidated financial statements.

Debt Service Obligations

We remain focused on refinancing near-term facilities on acceptable terms and maintaining a manageable maturity ladder. We do not anticipate material issues in addressing our borrowings through 2023 on acceptable terms and will do so opportunistically based on the prevailing interest rate environment.

The aggregate contractual principal payments of long-term debt due after September 30, 2020, including financing lease obligations and excluding amortization of debt discounts, premiums and deferred financing costs, as stated in the financing agreements, are as follows:

(In thousands)	Remainder of 2020[2]	2021	2022	2023	2024	Thereafter	Total
Maturities of long-term debt[1]	$ 303,855	$333,391	$328,826	$944,197	$ 453,562	$4,541,933	$ 6,905,764

(1) Represents the contractual principal payment due dates for our long-term debt and does not reflect the reclassification of $154.3 million of long-term debt, net of unamortized deferred financing costs of $5.0 million, to current due to debt defaults that existed at September 30, 2020. See *Note 9. Long-term Debt* to our unaudited condensed consolidated financial statements for additional details.
(2) Includes the $181.1 million Bridge Facility maturing on December 31, 2020. We intend to complete a refinancing of the balance on a long-term basis prior to maturity.

Cash Flow Discussion

We use measures of cash flow, including net cash flows from operating activities, investing activities and financing activities, to evaluate our periodic cash flow results.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

The following table reflects the changes in cash flows for the comparative periods:

(In thousands)	Nine Months Ended September 30, 2020	2019	Change
Net cash provided by operating activities	$ 179,848	$ 268,203	$ (88,355)
Net cash used in investing activities	(69,376)	(730,883)	661,507
Net cash (used in) provided by financing activities	(126,505)	423,516	(550,021)

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $179.8 million for the nine months ended September 30, 2020 compared to $268.2 million for the same period in the prior year. The decrease in operating cash flow of $88.4 million was primarily driven by (i) $83.5 million net decrease due to the timing of sales and collections from customers and payment of vendors, (ii) payments to terminate interest swaps of $85.1 million, (iii) total operating costs (excluding non-cash items) increasing by $16.1 million for the nine months ended September 30, 2020 compared to 2019, (iv) $1.2 million increase in interest payments and (v) $0.2 million increase in income tax payments. This was partially offset by a $98.4 million increase in operating revenues for the period (excluding losses on commodity derivative contracts, recognition of deferred revenue and amortization of favorable and unfavorable rate revenue contracts, net).

Net Cash Used in Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2020, was $69.4 million, which consisted of $79.8 million in payments to acquire businesses, net of cash acquired and $27.8 million for capital expenditures. These payments were partially offset by (i) $35.1 million in proceeds from the settlement of foreign currency contracts used to hedge the exposure associated with foreign subsidiaries, (ii) $2.7 million in proceeds from other investing activities and $0.5 million in proceeds received from a government rebate for certain costs previously incurred for capital expenditures. Net cash provided by investing activities for the nine months ended September 30, 2019 was $730.9 million, which consisted of (i) $731.8 million payments to acquire an approximately 320 MW distributed generation portfolio in the U.S., net of cash and restricted cash acquired, (ii) $18.3 million payments to acquire renewable energy facilities from third parties in the U.S., net of cash and restricted cash acquired and (iii) $16.5 million payments for capital expenditures. These payments were partially offset by (i) $28.1 million proceeds from the settlement of foreign currency contracts used to hedge the exposure associated with foreign subsidiaries, (ii) $5.1 million proceeds received from a government rebate for certain costs previously incurred for capital expenditures and (iii) $2.5 million received from other investing activities.

Net Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2020, was $126.5 million, which consisted of (i) $659.1 million principal payments on non-recourse debt, (ii) $117.0 million payments of cash distributions to our Class A common stockholders, (iii) net payments of $39.3 million to non-controlling interests, and (vi) other financing activities of $1.0 million. This was partially offset by (i) $580.9 million in proceeds from non-recourse debt financing net of deferred financing fees and (ii) $109.0 million of net draws on our Revolver. Net cash provided by financing activities for the nine months ended September 30, 2019, was $423.5 million, which consisted of $296.1 million proceeds from non-recourse debt financing net of deferred financing fees that were partially offset by (i) $189.0 million principal payments on non-recourse debt, (ii) $126.0 million payments of cash distributions to our Class A common stockholders, (iii) net payments of $11.6 million to non-controlling interests and (iv) net repayments of $21.0 million on our Revolver.

Off-Balance Sheet Arrangements

We enter into guarantee arrangements in the normal course of business to facilitate commercial transactions with third parties. See *Note 14. Commitments and Contingencies* to our unaudited condensed consolidated financial statements included in this Report for additional discussion.

Item 3: Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to several market risks in our normal business activities. Market risk is the potential loss that may result from market changes associated with our business or with an existing or forecasted financial or commodity transaction. The types of market risks we are exposed to include interest rate risk, foreign currency risk and commodity risk. We do not use derivative financial instruments for speculative purposes.

Interest Rate Risk

As of September 30, 2020, the estimated fair value of our debt was $7,597.1 million and the carrying value of our debt was $6,852.3 million.

As of September 30, 2020, our non-recourse permanent financing debt was at both fixed and variable rates. 53% of the $4,650.7 million balance had a variable interest rate and the remaining 47% of the balance had a fixed interest rate. We have entered into interest rate derivatives to swap the majority of our variable rate non-recourse debt to a fixed rate. Although we intend to use hedging strategies to mitigate our exposure to interest rate fluctuations, we may not hedge all of our interest rate risk and, to the extent we enter into interest rate hedges, our hedges may not necessarily have the same duration as the associated indebtedness. Our exposure to interest rate fluctuations will depend on the amount of indebtedness that bears interest at variable rates, the time at which the interest rate is adjusted, the amount of the adjustment, our ability to prepay or refinance variable rate indebtedness when fixed rate debt matures and needs to be refinanced and hedging strategies we may use to reduce the impact of any increases in rates. We estimate that a hypothetical 50 basis points, or 0.5%, increase or decrease in our variable interest rates pertaining to interest rate swaps not designated as hedges would have increased or decreased our earnings by $33.3 million or $34.9 million for the nine months ended September 30, 2020, respectively.

Foreign Currency Risk

During the nine months ended September 30, 2020 and 2019, we generated operating revenues in the U.S., Canada, Spain, Portugal, the United Kingdom, Chile and Uruguay, with our revenues being denominated in U.S. dollars, Euro, Canadian dollars and British pounds. The PPAs, O&M agreements, financing arrangements and other contractual arrangements relating to our current portfolio are generally denominated in the same currencies.

We use currency forward and option contracts in certain instances to mitigate the financial market risks of fluctuations in foreign currency exchange rates. We manage our foreign currency exposures through the use of these currency forward and option contracts to reduce risks arising from the change in fair value of certain assets and liabilities, including intercompany loans denominated in Euro.

We use foreign currency forward and option contracts to hedge portions of our net investment positions in certain subsidiaries with Euro and Canadian dollar functional currencies and to manage our overall foreign exchange risk. For instruments that are designated and qualify as hedges of net investments in foreign operations, the effective portion of the net gains or losses attributable to changes in exchange rates are recorded in foreign currency translation adjustments in accumulated other comprehensive income ("AOCI"). Recognition in earnings of amounts previously recorded in AOCI is limited to circumstances such as complete or substantial liquidation of the net investment in the hedged foreign operation. The change in fair value of derivative contracts intended to serve as economic hedges that are not designated as hedging instruments is reported as a component of earnings in the unaudited condensed consolidated statements of operations. The objective of these practices is to minimize the impact of foreign currency fluctuations on our operating results. We estimate that a hypothetical 50 basis points, or 0.5%, increase or decrease in Euros would have increased or decreased our earnings by $1.5 million, for the nine months ended September 30, 2020. Cash flows from derivative instruments designated as net investment hedges and non-designated derivatives used to manage foreign currency risks associated with intercompany loans are classified as investing activities in the consolidated statements of cash flows. Cash flows from all other derivative instruments are classified as operating activities in the consolidated statements of cash flows.

Commodity Risk

For certain of our wind power plants, we may use long-term cash-settled swap agreements to economically hedge commodity price variability inherent in wind electricity sales arrangements. If we sell electricity generated by our wind power plants to an independent system operator market and there is no PPA available, then we may enter into a commodity swap to hedge all or a portion of the estimated revenue stream. These price swap agreements require periodic settlements, in which we receive a fixed price based on specified quantities of electricity and we pay the counterparty a variable market price based on the same specified quantity of electricity. We estimate that a hypothetical 10% increase or decrease in electricity sales prices pertaining to commodity swaps not designated as hedges would have increased or decreased our earnings by $8.9 million or $10.2 million for the nine months ended September 30, 2020, respectively.

Liquidity Risk

Our principal liquidity requirements are to finance current operations and service debt. Changes in operating plans, lower than anticipated electricity sales, increased expenses, acquisitions or other events may cause management to seek additional debt or equity financing in future periods. There can be no guarantee that financing will be available on acceptable terms or at all. Debt financing, if available, could impose additional cash payment obligations and additional covenants and operating restrictions. Our ability to meet our debt service obligations and other capital requirements, including capital expenditures, as well as make acquisitions, will depend on our future operating performance which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond management's control.

Counterparty Credit Risk

Our financial assets are typically subject to concentrations of credit risk and primarily consist of cash and cash equivalents, accounts receivable and derivative assets. Credit losses refer to the financial losses resulting from non-performance or non-payment by counterparties under the contractual obligations they are bound by.

We are subject to concentrations of credit risk related to the cash and cash equivalents that may exceed the insurable limits in the related jurisdictions. The maximum exposure to loss due to credit risk would generally equal the stated value of cash and cash equivalents. We place our cash and cash equivalents with creditworthy financial institutions and, historically, did not experience any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

We serve hundreds of customers in three continents, and, in the U.S., our customers are spread across various states resulting in the diversification of its customer base. Furthermore, a significant portion of our operating revenues are contracted through long-term PPAs with offtake counterparties that are government-backed entities and public utility companies that, on average, had an investment grade credit rating. During the nine months ended September 30, 2020, we earned $327.9 million from the Spanish Electricity System of which $270.7 million billed through the CNMC and represented 40% of our net consolidated operating revenues. The CNMC is the state-owned regulator of the Spanish Electricity System who collects the funds payable, mainly from the tariffs to end user customers, and is responsible for the calculation and the settlement of regulated payments. We believe that this concentration of risk is mitigated by, among other things, the indirect support of the Spanish government for the CNMC's obligations and, in general, by the regulated rate system in Spain.

Our derivative instruments also expose us to credit risk to the extent counterparties may be unable to meet the terms of the contractual arrangements. Our maximum exposure to loss due to credit risk if counterparties fail completely to perform according to the terms of the contracts. We seek to mitigate such risk by transacting with a group of creditworthy financial institutions and through the use of master netting arrangements.