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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the TerraForm Power, Inc. Third Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Mr. Brett Prior, Head of Investor Relations. Please proceed.

Brett Prior - *TerraForm Power, Inc. - Head of IR*

Thank you, operator. Good morning, everyone, and thank you for joining us for our third quarter conference call. I'm joined today by John Stinebaugh, our Chief Executive Officer; and by Matt Berger, our Chief Financial Officer.

Before we begin, I'd like to remind you that a copy of our news release, investor supplement and letter to shareholders can be found on our website. I also want to remind you that we may make forward-looking statements on this call. These statements are subject to known and unknown risks, and our future results may differ materially. For more information, you're encouraged to review our regulatory filings available on EDGAR and on our website.

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

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

Thank you, Brett. On October 16, we closed our transaction with Brookfield. Brookfield, together with its institutional partners, now holds a 51% interest in TerraForm Power and has assumed the role as our sponsor. Brookfield's sponsorship provides us with, among other things, executive leadership, significant business development resources and operational and capital market support. With our high-quality fleet of 2,600 megawatts of solar and wind assets and the support of our sponsor, we are confident that we can restore TerraForm Power to growth mode. Going forward, we will seek to deliver attractive risk-adjusted returns to our shareholders through the combination of a dividend, backed by stable cash flow from our assets and sustainable growth over the long term.

Now I'll spend a few minutes and talk about TerraForm Power's value proposition. Our goal is to deliver a total return of approximately 12% to shareholders that is sustainable over the long term. We expect this total return will be comprised of a significant dividend yield, supported by a payout ratio of 80% to 85% of CAFD, plus dividend per share growth of 5% to 8%. Over the next 5 years, we see multiple paths to achieving this growth plan and delivering compelling returns to our investors. On today's call, I'd like to walk you through the 3 primary methods for achieving our growth plan.

The first and largest driver of dividend per share growth should be margin enhancements. We believe there is a significant opportunity to enhance our cash flow through increased productivity. Within the first year, we are targeting approximately $10 million of net cost savings by streamlining our organization structure. We are in the process of implementing a structure, which is flatter and eliminates duplicative functions. In addition, we are planning to automate a number of processes that are currently very labor intensive as well as in-source asset management and certain back-office functions.

Over the next 2 to 3 years, we're targeting an additional $15 million in cost savings through reductions in O&M expense of $2 per megawatt hour. We believe these O&M savings are achievable in part because we have a number of legacy service agreements in our wind fleet with prices that are significantly above current market. Over the past few years, there's been significant increased competition in the service sector, as OEMs have been battling to gain market share by offering contracts with more coverage and lower rates compared to our legacy agreements. Alternatively, we are exploring whether we can achieve greater benefits by adopting an in-sourcing model that leverages Brookfield's experience in establishing an organization to self-perform its renewable power O&M. We are pleased that we have 2 paths to achieve our cost-savings objectives. Whether we recontract with OEMs or in-source will ultimately depend upon which option offers the best combination of lowest cost, risk mitigation and flexibility for our operations. In total, we expect these margin enhancements to provide cash flow increases to largely fund our dividend per share growth targets through 2020.

The second source for achieving our targeted growth in dividend per share is expected to come from organic growth. In addition to cost savings, we're very focused on developing a robust organic growth pipeline comprised of opportunities to invest in our existing fleet on an accretive basis as well as add on acquisitions across our scope of operations. We have identified several compelling opportunities, such as asset repowerings, site expansions and potentially deployment of energy storage to existing sites. We believe these opportunities to repower several of our wind farms in the Northeast and Hawaii by replacing older turbines with new turbines that have increased rotor diameter and superior power generation. With these repowering opportunities, we'll be able to utilize existing infrastructure, such as the wind farm substation, electrical collection systems and potentially towers, subject to providing necessary reinforcement to their foundations. The preliminary economics for these projects are quite compelling as they are able to generate incremental power at much lower costs compared to new greenfield projects. However, we will be disciplined and only plan to proceed if we're able to secure long-term contract that mitigate the price risk of these projects.

Another opportunity for organic growth is the potential repowering of some of the projects in our solar distributed generation fleet. Our distributed generation projects typically sell power to customers behind the meter at rates that are a discount to their utility rate. As solar panel costs have declined significantly over the last several years and the efficiency of the panels has increased, there may be opportunities to replace older panels with higher-output, lower-cost modules as well as to expand the footprint of our solar arrays. We believe this type of repowering represents a win-win situation as our corporate and municipal customers would see even greater savings on their electricity bills, and TerraForm Power would be able to earn attractive returns on its incremental capital investment.

In addition to these opportunities, we will also seek to develop relationships with undercapitalized private developers that have local expertise and traction in key markets. With Brookfield's support, we should be able to offer these developers capital as well as assistance in executing their projects. In return, we would look to secure a right of first offer on their projects. We believe these relationships should produce add-on acquisitions with attractive returns compared to auction processes. We look forward to providing further updates on these organic growth initiatives as they progress.

And finally, the third avenue for achieving our targeted dividend per share growth should be value-oriented acquisitions. We are currently evaluating a number of acquisition opportunities, leveraging Brookfield's significant business development team in our target markets of North America and Western Europe. With the relationships that Brookfield has developed, its team has been very effective at sourcing off-market transactions at more attractive valuations than auction processes. Furthermore, Brookfield has a track record of executing multifaceted transactions, such as take-privates and recapitalizations that have historically enabled the acquisition of high-quality assets at attractive relative values.

TerraForm Power also has a right of first offer to acquire renewable power assets in North America and Western Europe owned by Brookfield and its affiliates. The ROFO portfolio currently stands at 3,500 megawatts. Over time, as the Brookfield entities look to sell these assets, TerraForm Power will have the opportunity to make offers and potentially purchase these assets if the prices meet our investment objectives.

We believe that TerraForm Power will be able to achieve its dividend growth and total return objectives over the next 5 years from cost savings and investments in organic growth opportunities. Our 5-year business plan requires a modest amount of equity issuance of around $100 million. This will allow us to be patient and disciplined, and we'll only pursue larger value-oriented acquisitions to the extent that they provide upside to our business plan.

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

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

Thanks, John. On today's call, I'll be covering our financial results for the call quarter as well as providing an update on our recent and future plan to strengthening TerraForm Power's balance sheet.

Before I dive into the financial results, I'd like to first highlight some of the key metrics of our fleet. TerraForm Power continues to maintain a strong portfolio of best-in-class renewable power plants. On a cash flow basis, our fleet is 60% solar and 40% wind. 90% of our cash flows are under long-term contracts with a remaining life of approximately 15 years on a weighted average basis. Our power plants sell to high-quality offtakers, including utilities and municipalities with an average California credit rating of Aa3. Our fleet is young with an average asset age of only 4 years and is highly diversified, with no one project representing more than 9% of cash flows.

Turning to the third quarter. Our portfolio performed slightly below expectations, delivering adjusted EBITDA and CAFD of $109 million and $25 million, respectively. This represents a decrease of $10 million and $9 million, respectively, compared to the same period last year when we delivered adjusted EBITDA and CAFD of $119 million and $34 million. The decrease was largely due to the impact of weaker-than-average wind resource resulting in a 13% decrease in total generation compared to the prior year. Wind resource was 20% below average for the quarter and was particularly low in our Hawaii projects, which have a higher-than-average contract price. Solar resource was also 5% below normal levels. During the quarter, our fleet availability of 96% continued to show improvement and has further room to increase as we complete the transition to stand-alone operations.

One event that I'd like to mention that occurred just after quarter end is the signing of an EPC contract to replace the batteries of one of our Hawaii wind projects, where we are replacing lead acid batteries with lithium ion batteries. Due to the lower maintenance expense associated with these new batteries, we expect to earn 20% unlevered return on investment of $11 million. In addition, we believe that there may be opportunities in the future to expand our battery farm in order to provide further ancillary services for the local utility.

Next, I'd like to review our balance sheet and liquidity. Since the Brookfield transaction was announced in March, we have taken steps to strengthen our balance sheet and bolster our liquidity. This progress was recently acknowledged when we received upgrades in our corporate credit rating to BB- from S&P and B1 from Moody's. In the past 6 months, we have repaid over $450 million of debt with proceeds from asset sales and free cash flow. Concurrent with the close of the Brookfield transaction, we received a change of control waiver for our $1.25 billion of unsecured bonds and executed a $450 million revolving credit facility with relationship banks in replacement of our previous facility. In early November, we issued $350 million term loan that will be used to replay an intermediate holdco loan simplifying our capital structure. We are very pleased with the execution of this financing, which we upsized by $50 million and priced at LIBOR plus 275, a tightening of 75 basis points below initial price guidance. We believe this is an affirmation of Brookfield's sponsorship and our plan to further strengthen our balance sheet over time.

With the repayment of the intermediate holdco loan, there's no longer any debt between our projects and corporate. Going forward, we intend to reduce corporate leverage by raising project debt on certain of our unlevered projects and using the proceeds to repay corporate debt. As we grow, we expect to finance acquisitions primarily using nonrecourse debt with investment-grade metrics, further deleveraging our balance sheet. Over the medium term, our objective is to reduce our corporate debt to cash flow available for debt service ratio to between 4 to 5x.

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

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

Thanks, Matt. I'd like to close by providing a few comments on the outlook for TerraForm Power and the renewables industry in the U.S. more broadly. Recent concerns over potential tariffs on solar panels and proposed changes to tax legislation have had a chilling effect on renewable development activity in the United States. We do not expect this tax legislation to be implemented retroactively and, therefore, do not believe that these potential changes would have a material impact on our existing fleets' cash flow. Furthermore, we believe that these factors may, in fact, be positive for our growth prospects.

With the declining costs of both solar panels and wind turbines, combined with continuing support of renewables at the state level and from corporate customers, we believe the renewable industry is quickly approaching the point where it does not need significant tax incentives to maintain its growth. In order to maximize the value of tax incentives, capital structures have become very complex. As these incentives are phased out, we believe this will benefit strong operators, such as TerraForm Power.

In addition, these proposed changes have created considerable uncertainty within the industry. From past experience, uncertainty may lead to opportunities for value investing. With over $700 million of corporate liquidity, including the $500 million acquisition facility from Brookfield, we will be ready and able to take advantage of any attractive opportunities that may arise.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Mark Strouse with JPMorgan.

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

Congrats on getting the deal done. So just wanted to start. The market is assigning a bit lower yield than some of your yieldco peers. So just kind of at a high level, is there anything you can say about the potential for an opportunistic capital raise to go after some inorganic opportunities? Anything you can say as far as a target yield or target IRR, anything like that would be helpful.

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

Thanks, Mark. It's John. So first of all, we think that the value proposition that we have been talking to shareholders about has been resonating pretty well. We're trading at a dividend yield in the mid-5s. And that's part of a total return prospect that's approximately 12%, which we think should be attractive for assets that have got stable cash flow, like the assets in our portfolio. So in terms of how we think about (inaudible), we are looking at opportunities that are out there. We -- our business plan calls for earning a return on the capital we have to deploy, which is a modest amount over the next 5 years of CAFD yield between 10% and 11%. So we're confident that we can hit that base business plan. We will look at value acquisitions, but only to the extent they're accretive to the business plan. So that's sort of the marker that we're looking at. And for those, we think that there are times in the cycle where whether it be take-privates, there's a number of obvious situations out there that Brookfield's always looking at as part of our normal business development activities. But then also, potentially with the uncertainty because of the changes to tax law chilling development opportunities, that could create situations where you have some stressed developers who, perhaps, have overextended themselves. So we do think that there could be some interesting opportunities with the way we look at returns. Is it going to be accretive to the base business plan that we've got out there? And then if so, we would look to do those activities. But I don't think we'll do a preemptive capital raise in order to try to fund that. I think we do have plenty of liquidity in light of the Brookfield acquisition line as well as the incremental $200 million of liquidity. So we've got a quite a bit of liquidity to play offense if the right situation arises.

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

Okay. That's helpful. And then, I think investors have been used to wind resource being a little bit more variable than solar. But it's been a couple of quarters in a row now where solar's been a bit lower than expected. Can you give some detail about what's going on there? How that has trended thus far into 4Q? And just -- is this potentially, for some reason, a new normal? Or should we expect this to rebound in 2018?

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

So overall, we do think the solar variability is quite a bit less than wind variability. I think what you may have seen in our results is the controllable availability was a little bit less than the first half of year as we were transitioning from SunEd operations to new third-party operators. It's gone up over the past quarter or so. As we've successfully transitioned, we do have a little bit more upside than we think we can realize. But by and large, we're getting back to pretty close to historic levels. And so I think going forward, it's mostly going to be the resource that impacts things. And the resource, we do think and see in our portfolio is quite a bit less than wind.

Operator

Our next question comes from Brian Lee with Goldman Sachs.

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

Maybe just to follow up on that last one, specifically on the wind resource. A few of your peers, I think they said more like 15% below average here this quarter. So I know you mentioned Hawaii as being a contributing factor for why you're at 20%. But wondering if there's any other factors driving the higher delta for your fleet. And then again, related to just sort of what you're seeing in terms of Q4 heading into 2018, appreciating that wind's a lot more variable.

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

So in terms of the overall availability, we said approximately 20%. It's a little bit less than that, so I don't think there's that much deviation from our peers in terms of if we look at a market-by-market comparison. Hawaii definitely was impacted, so our peers generally don't have the exposure that we do to Hawaii. But overall, I think what we saw during the quarter was pretty comparable with what our peers saw. Going forward, we are, in terms of our forecasting, predicting that things are going to be average for the quarter. So at this point in time, no real deviation from that from our standpoint. And we are in the process -- and one of the things that we will be publishing in our supplemental results going forward -- it'll probably be next quarter, is a view of long-term averages for wind production as well as solar resource. So it'll be a way for investors to track performance against the quarterly or seasonal adjusted averages for the portfolio.

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

Okay, great. That's helpful. Looking forward for that. Second question is just on the repowering. Is that an effort that's already underway, John? And how much do you think that could impact 2018? Or is that more of a 2019 event, just given turbine lead times and what have you? And then in terms of the per plant impact, we've seen reports that suggest as much as 20%, 25% increase in production from repowering. Obviously, it's going to depend on the asset and the legacy of it. But any sense of the range your targeted repowerings would be able to achieve, based on the fleet you're looking at? And then what that might translate to in terms of increases in plant EBITDA or CAFD as well?

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

We have begun the work on repowerings of a couple of our wind farms in the Northeast. So we've got board approval for a preliminary development budget. And we've had discussions with OEMs regarding the ability to put new turbines with larger rotor diameters on existing towers. And the conversations have been positive thus far. In terms of the expected potential increase in output, we think that it is perhaps 30%, in that ballpark, of incremental energy. So with that, these projects we think will be a significant discount to the cost of greenfield. So we do think there is quite a bit of repowering value there. In terms of impact on EBITDA, the real gating item for us is, we're not going to go forward unless we have a long-term contract. So that's really the wild card as well as we've got to go through the permitting-linked process for the repowerings. So it's hard, at this point, to really give a view as to when we're going to see contribution because it's really going to be predicated on getting a contract to support the capital investment. But we do think that the returns on these projects will be considerably higher than returns that we could earn if we invest in acquiring operating projects, or even projects and [NTP] for that matter.

Operator

Our next question comes from Vishal Shah with Deutsche Bank.

Qingli Lei - *Deutsche Bank AG, Research Division - Research Associate*

This is Rachel on for Vishal. So the first one is on the C&I potential and the C&I customer DG opportunity. Can you just maybe talk a little bit about, are you starting to kind of look into that? And what kind of geographies, what kind of outlooks do you have for those?

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

So that is not as advanced as the work that we have done thus far on the wind repowerings. But just in terms of looking at the prices that are in the contracts with our customers as well as the significant drop in cost of panels and the advancement of panel technology, we think there could well be an opportunity that could be fairly significant in light of the scale, approximately 400 megawatts, of our DG portfolio. So that's one that is a priority for us to scope out. But at this point, we don't really have, call it, the metrics that we've got in terms of the potential benefits on a per-project basis like we do with wind, because the wind repowering efforts are further along. But we do hope to advance that over the coming quarters and provide updates in terms of what we think the scope of the opportunity is going to be.

Qingli Lei - *Deutsche Bank AG, Research Division - Research Associate*

Great. That's helpful. As a follow-up, so in terms of when you think of noncore asset monetization potentially, what have you been thinking about? Maybe potentially selling some of the assets in South Africa -- South America?

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

That's the obvious one. Our target markets are North America and Western Europe. So the asset that we've got in Chile clearly is outside of our target markets. So it's noncore. I'd say that we will look to sell it. We want to make sure we can get appropriate value for it. With the number of the transmission projects that are underway in Chile that will debottleneck the grid, we think that will provide greater visibility regarding the transmission curtailments that are in the region. And once we can get what we think is appropriate value for that, we will look to sell that asset and redeploy capital.

Operator

Our next question comes from Colin Rusch with Oppenheimer.

Colin William Rusch - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

John, can you talk a little bit about the maturity of the conversations you're having around the contracts for potential repowering opportunities? And how we can think about the cadence of those moving forward?

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

We've had preliminary conversations with a couple of big OEMs on that. And I guess, what we can say is that the preliminary work that we've done, we feel pretty comfortable that we can put the larger rotor diameter turbines on existing towers, subject to a modest amount of reinforcement of foundations. So that's definitely a positive. We also have had modeling to assess the impact from a production standpoint. And as I mentioned earlier, we think that depending on the OEM manufacturer, their equivalent -- some maybe a little bit better than others, but we'll get increases in production in the 30% plus ballpark. And so that being the case, we do think there is considerable repowering value. The one thing we're focusing on for repowering are largely the projects where we think there is good real estate value. And what I mean by that is where there's less availability of land for greenfield projects, which then implies that we think our projects have got more value at the safe than what we have. So primarily, the sites in the Northeast as well as in Hawaii.

Colin William Rusch - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And then on the PPA side of things. Are there opportunities for you to renegotiate those PPAs? And how amenable are the offtakes to getting something like that done? And if not, are you guys looking at potentially participating in merchant markets or even ancillary services markets?

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

The 2 projects that I mentioned that we are working on right now have got financial hedges in place, so they've got the most flexibility from an offtaker standpoint. We think that with those, we could renegotiate hedges, potentially blend, extend them and things of that nature. So those are the lowest-hanging fruit from a counterparty standpoint. And beyond that, we haven't had discussions with other offtakers. But in Hawaii, as an example, we do think there is potential opportunity because there is an upcoming RFP. We think we do have considerable site value with the locations that we've got, so that's one where we will probably, in the coming quarters, begin having conversations and seeing if we think there is a constructive framework to do something. But at this point, we haven't had conversations with counterparties at this time. It's mostly been focusing on the ones with financial hedges.

Operator

Our next question comes from Julien Smith with Bank of America.

Antoine Pierre Jean Aurimond - *BofA Merrill Lynch, Research Division - Associate*

It's Antoine, actually. Quick question on the cost -- do the 3Q costs include any of the phase 1 cost savings? And also on that note, the -- what sort of base do we use to go off on the cost savings?

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

Antoine, I couldn't quite hear the question.

Antoine Pierre Jean Aurimond - *BofA Merrill Lynch, Research Division - Associate*

The question was does the 3Q numbers include any of the phase 1 cost savings? And also what sort of base should we go off when accounting for those cost savings?

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

So the Q3 numbers do not. That was before we closed our transaction. And I think your question was how should we think about the phasing of the cost savings. I'll answer that question, and if that wasn't the question, then let me know. We have said that we think that there is $10 million of net savings in the next year. I think we will be at a run rate for that $10 million net savings for sure. We may not be able to realize all of that in the next year in the sense that there are going to be some transition costs that we do have to incur in order to put our organization structure in place, such as severance. I think the severance is largely probably going to be in the end of this year, but some of it may bleed over into the following year. Also, we're transitioning our office to New York, so there's going to be some costs associated with that. So we do think that we will be at that run rate level, I'd say, within the second half of next year for sure. We may not hit the full $10 million for the whole year because of some of the transition costs that I talked about, but we're confident that we can hit that overall number.

Antoine Pierre Jean Aurimond - *BofA Merrill Lynch, Research Division - Associate*

Got it. Okay, makes sense. And then just a quick one on the -- so on the third-party acquisition, I mean, I think we've seen the market being fairly competitive right now. What sort -- what do you think would make TERP competitive and win accretive acquisitions (inaudible)

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

The market that you see that's quite competitive is the auction market. So in an auction process, where it's a project that is pretty plain vanilla with not many issues, the institutional market is a strong bid for that. And we're not really looking to compete against the institutional market and bid down our cost of capital or returns to do those types of deals. That's why we are focused on -- within the investable universe we've got, repowerings are going to be the highest returns, so that's obviously a big priority. Developing relationships with small, undercapitalized developers, who are looking to figure out ways of getting projects over the finish line, where we can provide added value through a lot of the things that Brookfield does and get access to projects at better pricing than auction prices, so that's another strategy that we've got. And then if you look at the value-oriented acquisitions that Brookfield historically has done, those are off-market deals. So they can be deals that are more complex, like take-privates or recaps or stuff like that, where not as many people compete. And because of that, you can buy assets for a better value. But those are the kinds of things we're going to look to do to earn the target returns and buy assets, frankly, for better value than you can in auction processes.

Operator

(Operator Instructions) Our next question comes from David Katter with Baird.

David Francis Katter - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

I was wondering if you could -- you've touched on this, but quickly discuss some of the lower-hanging fruit you might go after first? In 2018, should we expect exclusively margin productivity enhancements? And could we see some benefit from deleveraging or refinancing the debt? And then along the same line, what kind of opportunity do you have to deleverage? How could that flow through?

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

Okay. Sure, yes. So in terms of the cost savings, I think as we've disclosed previously, most of that is in -- will be in-sourcing and really on the operational side and rolling off some of the higher-priced O&M contracts and taking some of that in-house. And we feel very comfortable that we have the opportunity to reduce our overall cost structure from that activity. In terms of refinancings, as I think like most are aware, we have an opportunity with our unsecured debt to potentially refinance that in the first part of 2018. We're looking very actively at that, given the strength of the high-yield market. And I think there may be an opportunity to potentially deliver a refinancing of our $950 million unsecured notes at some point in 2018. But we're evaluating that as we speak. And that would be a significant positive impact to our numbers, which we have somewhat reflected in our projections, but there may be some additional upside as well.

Operator

Our next question comes from Chris Morgan with Macquarie.

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

It's actually Angie Storozynski, Macquarie. So I know that you didn't own the asset during the third quarter. So now that you summarized the results, has there been anything surprising in what you've seen so far?

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

Angie, it's John. There hasn't been really any surprises. We have been, although not operating the assets, we're involved from a transition standpoint over the last couple of months, so I think we were able to get a pretty good idea as to the assets under the hood, so to speak. So there hasn't been any surprises. We think the projects are very solid projects. They're well structured. They produce stable cash flow. And I think the performance of the projects over the past year really does evidence that. But I think what we do see is by bringing the emphasis on best practices from an operational standpoint, increasing the output of existing assets and doing a lot of the blocking and tackling from an asset management standpoint, we do think there is quite a bit of upside, in addition to the reduction of costs on the G&A side and the O&M side that we talked about. Potentially, as part of these cost savings, part of it is reducing the O&M that is within the operation -- I'm sorry, the G&A within the operations side of the business. And we also think we should be able to increase availability somewhat as well. It's trended better over the last quarter or so from the beginning of the year, but we do think there's some opportunity to get some further upside with that.

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

Okay. Second question, so on the repowerings. Okay, so the -- so given that there's some uncertainty on the tax side, is there any incentive to, I don't know, maybe make decisions on these repowerings by the end of this year to potentially, I don't know, lock in some of the tax benefits, given that there is some sort of uncertainty how the PTCs will be extended? So is there a rush to make those decisions?

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

There clearly is the phase down of the PTC. So we are looking at ways of potentially qualifying for that phase down in the PTC before it drops to the 60% level after 2017. We think that you're probably not going to have an elimination of the PTC because I think a number of the members of the senate have been pretty vocal about preserving the existing deal that was in place. So that being the case, we are looking at potentially trying to qualify for some turbines that benefit from the current level of PTC that can then enhance the economics of the repowering.

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

And my last question. So you did mention that you could have just energy hedgings or gas hedges, whatever you call them, for those projects in the Northeast that you're considering to repower. But that would be in addition to, for instance, getting in some of the pending renewable RFPs in New England, so that there would be like more of a stable component of the (inaudible) of these assets that you would be repowering.

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

With respect to the energy hedges, we have energy hedges in place. So there's a number of ways we could deal with those. One would be financially settling them and unwinding them and putting in place corporate contracts or contracts pursuant to some of the RFPs. That would be the preferred way of doing it, because I think we would get a premium for the power if it is through a power contract with a buyer of renewable power. We may consider, if we can earn acceptable economics, looking to put a hedge in place, and then try to put contracts in place to upgrade the return if we're confident that we can contract and high grade the economics over time. That's not something we've decided at this point, but it is something we're considering just based on the levels of hedges and the duration of hedges that you can execute in the market.

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

And I know I said it was my last question, but my last question's actually for Matt. So the 80% to 85% payout ratio, given the amount of leverage that TERP carries, I think I actually asked the question before. But I mean, would you be -- I mean, would it make sense to maybe reduce the payout and delever the balance sheet faster? You think that, that could be well received by the market?

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

I think we published a range of payout ratio deliberately. And it's something that we feel is the right ratio to use. I think we're looking for opportunities to, as I stated to, over the medium term, reduce our ratio, see (inaudible) 4 to 5x. And we think we can -- we think we have a plan to get there and thinking of opportunities to do that. So I'd say on the face of it, we're flexible. But I believe that's -- that the target is still the target, and we'll evaluate as we go. But I think that's still the guidance we'd give.

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

Angie, the one thing I'd add to that is we think that -- we thought pretty hard about an appropriate trade-off between growth that we think will be beneficial to equity investors versus deleveraging the balance sheet and think that getting down to the 4 to 5 range, getting to strong investment grade, not investment grade, the strong BB over the plant period is an objective that makes sense. And we think it's a good trade-off between the growth objectives that we got and strengthening the balance sheet.

Operator

Ladies and gentlemen, this concludes the Q&A session and the conference call. Thank you for participating in today's conference. You may all disconnect. Everyone, have a great day.
