TerraForm Power Operating, LLC and Subsidiaries

Unaudited Condensed Consolidated Financial Statements

Period Ended September 30, 2021 and 2020

TerraForm Power Operating, LLC and Subsidiaries

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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, 2021 (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. All statements that address operating performance, events, or developments that the Company expects or anticipates will occur in the future are forward-looking statements. 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.

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.

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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, 2021, the related condensed consolidated statements of operations, comprehensive income (loss) for the three and nine-month periods ended September 30, 2021, and cash flows and member's equity for the nine-month periods ended September 30, 2021. The condensed consolidated financial information of the Company as of September 30, 2020, and for the three and nine-month periods then ended, were reviewed by other auditors whose report dated November 13, 2020 stated that based on their review they were not aware of any material modifications that should be made to that financial information for it to be in conformity with U.S. generally accepted accounting principles. The consolidated balance sheet of TerraForm Power Operating, LLC and subsidiaries as of December 31, 2020, and the related consolidated statements of operations, comprehensive income (loss), cash flows and member's equity for the year then ended (not presented herein) were audited by other auditors whose report dated March 22, 2021 expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the condensed 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 of America 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 of America, 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 2021 condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

November 15, 2021

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Operating revenues, net	$ 275,824	$ 296,170	$ 864,211	$ 820,261
Operating costs and expenses:				
Cost of operations	65,541	69,769	330,622	189,559
General and administrative expenses	7,876	34,333	39,211	79,369
General and administrative expenses - affiliate	960	4,189	2,172	25,347
Depreciation, accretion and amortization expense	132,666	135,795	409,939	386,094
Total operating costs and expenses	207,043	244,086	781,944	680,369
Operating income	68,781	52,084	82,267	139,892
Other expenses (income):				
Interest expense	75,223	84,044	199,728	247,335
Loss on modification and extinguishment of debt	—	—	—	3,593
Gain on foreign currency exchange	(15,759)	(32,737)	(35,325)	(37,724)
Other	2,539	(2,001)	1,602	(9,140)
Total other expenses, net	62,003	49,306	166,005	204,064
Income (loss) before income tax expense	6,778	2,778	(83,738)	(64,172)
Income tax expense (benefit)	32,837	(522)	17,079	543
Net (loss) income	(26,059)	3,300	(100,817)	(64,715)
Less: Net loss attributable to redeemable non-controlling interests	(7)	(35)	(10)	(14)
Less: Net loss attributable to non-controlling interests	(9,165)	(9,577)	(83,361)	(35,046)
Net (loss) income attributable to member’s equity	$ (16,887)	$ 12,912	$ (17,446)	$ (29,655)

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,	
	2021	**2020**	**2021**	**2020**
Net (loss) income	$ (26,059)	$ 3,300	$ (100,817)	$ (64,715)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Net unrealized (loss) gain arising during the period	(11,702)	10,731	(11,985)	29,540
Hedging activities:				
Net unrealized loss arising during the period	(10,249)	(1,928)	(122,108)	(42,065)
Reclassification of net realized gain (loss) into earnings	3,163	1,149	96,024	(1,948)
Other comprehensive (loss) income, net of tax	(18,788)	9,952	(38,069)	(14,473)
Total comprehensive (loss) income	(44,847)	13,252	(138,886)	(79,188)
Less comprehensive loss attributable to non-controlling interests:				
Net loss attributable to redeemable non-controlling interests	(7)	(35)	(10)	(14)
Net loss attributable to non-controlling interests	(9,165)	(9,577)	(83,361)	(35,046)
Hedging activities	(5,213)	(272)	(19,757)	(705)
Comprehensive loss attributable to non-controlling interests	(14,385)	(9,884)	(103,128)	(35,765)
Comprehensive (loss) income attributable to member's equity	$ (30,462)	$ 23,136	$ (35,758)	$ (43,423)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 258,986	$ 279,316
Restricted cash, current	23,987	38,103
Accounts receivable, net	224,953	183,022
Due from affiliates	249	489
Derivative assets, current portion	14,834	6,432
Other	53,018	64,383
Total current assets	576,027	571,745
Renewable energy facilities, net	7,440,801	7,807,550
Intangible assets, net	1,732,129	1,890,166
Goodwill	176,046	185,845
Restricted cash	67,343	65,721
Derivative assets	18,987	61,493
Other assets	37,876	41,575
Total assets	$ 10,049,209	$ 10,624,095
Liabilities, Redeemable Non-controlling Interests and Member’s Equity		
Current liabilities:		
Current portion of long-term debt	$ 659,177	$ 584,234
Accounts payable, accrued expenses and other current liabilities	126,302	174,625
Due to affiliates	3,032	2,379
Derivative liabilities, current portion	71,230	74,828
Total current liabilities	859,741	836,066
Long-term debt	6,316,079	6,259,455
Operating lease obligations	284,315	293,559
Asset retirement obligations	329,856	324,196
Derivative liabilities	99,641	167,796
Deferred income taxes	188,176	179,265
Other liabilities	148,412	74,725
Total liabilities	8,226,220	8,135,062
Redeemable non-controlling interests	730	7,931
Member’s Equity		
Member's equity	1,061,946	1,577,528
Accumulated other comprehensive income	20,642	38,954
Non-controlling interests	739,671	864,620
Total member’s equity	1,822,259	2,481,102
Total liabilities, redeemable non-controlling interests and member’s equity	$ 10,049,209	$ 10,624,095

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)

	Member's Equity	Accumulated Other Comprehensive Income	Non-controlling Interests	Total
Balance as of December 31, 2019	$ 1,979,575	$ 31,794	$ 604,551	$ 2,615,920
Stock-based compensation	639	—	—	639
Net loss	(29,655)	—	(35,046)	(64,701)
Distributions	(116,862)	—	(40,484)	(157,346)
Other comprehensive loss	—	(13,768)	(705)	(14,473)
Contributions	—	—	3,008	3,008
Purchase of redeemable non-controlling interests	12,952	—	—	12,952
Balance as of September 30, 2020	$ 1,846,649	$ 18,026	$ 531,324	$ 2,395,999

	Member's Equity	Accumulated Other Comprehensive Income	Non-controlling Interests	Total
Balance as of December 31, 2020	$ 1,577,528	$ 38,954	$ 864,620	$ 2,481,102
Net loss	(17,446)	—	(83,361)	(100,807)
Distributions	(511,150)	—	(18,621)	(529,771)
Other comprehensive loss	—	(18,312)	(19,757)	(38,069)
Contributions	—	—	2,067	2,067
Purchase of redeemable non-controlling interests	6,467	—	—	6,467
Other[1]	6,547	—	(5,277)	1,270
Balance as of September 30, 2021	$ 1,061,946	$ 20,642	$ 739,671	$ 1,822,259

(1) Represents true up for the sale of non-controlling interests during the fourth quarter of 2020 recorded during the first quarter of 2021.

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,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (100,817)	$ (64,715)
Adjustments to the following non-cash items:		
Depreciation, accretion and amortization expense	409,939	386,094
Amortization of favorable and unfavorable rate revenue contracts, net	31,131	29,645
Amortization of deferred financing costs, debt premiums and discounts, net	9,525	12,053
Unrealized foreign exchange and financial instrument gains	(44,352)	(35,510)
Recognition of deferred revenue	—	(446)
Deferred taxes	12,508	2,448
Other non-cash items	6,929	12,110
Changes in net working capital	3,672	(76,765)
Payments to terminate interest rate swaps	(13,948)	(85,066)
Net cash provided by operating activities	314,587	179,848
Cash flows from investing activities:		
Capital expenditures	(89,799)	(27,798)
Proceeds from the settlement of foreign currency contracts, net	30,858	35,069
Payments to acquire businesses, net of cash and restricted cash acquired	—	(79,849)
Other investing activities	1,793	3,202
Net cash used in investing activities	(57,148)	(69,376)
Cash flows from financing activities:		
Revolver draws	522,000	291,000
Revolver repayments	(368,000)	(182,000)
Borrowings of non-recourse long-term debt	710,383	594,219
Principal payments and prepayments on non-recourse long-term debt	(605,015)	(659,120)
Debt financing fees paid	(8,054)	(13,333)
Contributions from non-controlling interests	2,067	3,008
Purchase of membership interests and distributions to non-controlling interests	(19,332)	(42,331)
Cash distributions	(511,150)	(116,977)
Other financing activities	(439)	(971)
Net cash used in financing activities	(277,540)	(126,505)
Net (decrease) increase in cash, cash equivalents and restricted cash	(20,101)	(16,033)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(12,723)	7,488
Cash, cash equivalents and restricted cash at beginning of period	383,140	349,500
Cash, cash equivalents and restricted cash at end of period	$ 350,316	$ 340,955

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 Parent, LLC ("TERP Parent"), a Delaware limited liability company and the successor entity to TerraForm Power, Inc. ("TERP Inc."). TERP Parent 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 12. Related Parties*, on July 31, 2020, TERP Inc. merged with and into TerraForm Power NY Holdings, Inc. ("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"). Subsequently, on March 15, 2021, TERP NY merged with and into its wholly-owned direct subsidiary, TERP Parent, with TERP Parent surviving the merger.

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.

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, as well as the revenues and expenses recognized during the reporting period. Actual results could differ from those estimates. Items subject to such estimates and assumptions include: the carrying amount and estimated useful lives of long-lived assets; asset retirement obligations; impairment of goodwill and long-lived assets; valuation allowances for deferred tax assets; credit loss for receivables; the fair value of financial instruments; the fair value of assets and liabilities acquired as business combinations; the incremental borrowing rates used in the determination of lease liabilities; and potential litigation claims and settlements.

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, 2021 and December 31, 2020, cash and cash equivalents included $198.7 million and $173.7 million, respectively, of unrestricted cash held at project-level subsidiaries, which was available for project expenses but not available for corporate use.

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 Credit Loss

Accounts receivable are reported on the unaudited condensed consolidated balance sheets, including both billed and unbilled amounts, and are adjusted for the allowance for credit loss and any write-offs. The Company establishes an allowance for credit loss 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 credit loss 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 which ranged from 10 to 30 years, as of September 30, 2021 and December 31, 2020. 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. The Company's major components of wind power plants had remaining useful lives ranging from 1 to 34 years. As of September 30, 2021 and December 31, 2020, they had a weighted average remaining useful life of 20 years.

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 unaudited condensed 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 reviews its 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, which generally 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, deterioration in the performance of our renewable energy facilities and the sale of non-controlling interest at a loss. 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 1st of each year. 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.

Asset Retirement Obligations

Asset retirement obligations are accounted for in accordance with Accounting Standards Codification ("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.

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 9. 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.

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 3. Revenue* for additional information.

Leases

Operating Lease Obligations

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 are recognized as incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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.

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 Parent. Accordingly, the Company does not have a liability for U.S. Taxes. However, under interim reporting, the guidance requires organizations to apply the world-wide tax rate to all earnings (or losses) unless the earnings (or losses) are subject to a valuation allowance ("VA") or the forecast cannot be relied upon. Therefore, the Company's unaudited condensed consolidated financial statements reflects a consolidated tax provision based on the world-wide tax rate.

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, 2021 and 2020.

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 in Note 6. *Variable Interest Entities,* 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 member's 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 Securities and Exchange Commission ("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.

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, due from affiliates, 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 10. 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 member's 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.

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. REVENUE

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

	Three Months Ended September 30,	
(In thousands)	**2021**	**2020**
PPA rental income	$ 93,602	$ 95,986
Commodity derivatives	(2,316)	18,660
PPA and market energy revenue	137,919	61,860
Capacity revenue from remuneration programs[1]	11,855	82,555
Amortization of favorable and unfavorable rate revenue contracts, net	(10,275)	(9,658)
Energy revenue	230,785	249,403
Incentive revenue	45,039	46,767
Operating revenues, net	$ 275,824	$ 296,170

(In thousands)	Nine Months Ended September 30, 2021	2020
PPA rental income	$ 285,096	$ 286,348
Commodity derivatives	12,775	26,424
PPA and market energy revenue	335,460	181,060
Capacity revenue from remuneration programs[1]	150,657	239,297
Amortization of favorable and unfavorable rate revenue contracts, net	(31,131)	(29,645)
Energy revenue	752,857	703,484
Incentive revenue	111,354	116,777
Operating revenues, net	$ 864,211	$ 820,261

(1) Represents the remuneration related to 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, 2021 and December 31, 2020, the Company's receivable balances related to PPA contracts with solar and wind customers were approximately $148.1 million and $130.2 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.

4. RENEWABLE ENERGY FACILITIES, NET

Renewable energy facilities, net consisted of the following:

(In thousands)	September 30, 2021	December 31, 2020
Renewable energy facilities in service, at cost[1]	$ 9,221,391	$ 9,372,428
Less: Accumulated depreciation	(1,931,587)	(1,634,654)
Renewable energy facilities in service, net	7,289,804	7,737,774
Construction in progress - renewable energy facilities	150,997	69,776
Total renewable energy facilities, net	$ 7,440,801	$ 7,807,550

(1) Includes $297.5 million and $342.7 million right-of-use assets, net related to operating lease obligations as of September 30, 2021 and December 31, 2020, respectively.

Depreciation expense related to renewable energy facilities was $102.2 million and $317.2 million for the three and nine months ended September 30, 2021, respectively, as compared to $106.9 million and $299.2 million for the same periods in the prior year.

Repowering Activities

During the year ended December 31, 2020, the Company committed to a plan to repower (the "Repowering") two wind power plants in New York, Cohocton and Steel Winds, which have a combined nameplate capacity of 160 MW. The Repowering will be implemented by replacing certain components of the wind turbines with newer equipment while preserving the existing towers, foundation and balance of plant. The Company revised the estimated useful lives of certain existing components of the renewable energy facilities that will be replaced with newer equipment and accelerated the recognition of the depreciation expense of the related assets up to their expected removal date throughout 2021. As of September 30, 2021 the net carrying amount was $0.04 million. During the three and nine months ended September 30, 2021, the Company recorded $2.6 million and $16.2 million in accelerated depreciation in its unaudited condensed consolidated statement of operations.

5. INTANGIBLE ASSETS, NET

The following table presents the gross carrying amount, accumulated amortization and net book value of intangibles as of September 30, 2021:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Licensing contracts	$ 986,568	$ (205,987)	$ 780,581
Favorable rate revenue contracts	749,540	(276,367)	473,173
In-place value of market rate revenue contracts	671,346	(192,971)	478,375
Total intangible assets, net	$ 2,407,454	$ (675,325)	$ 1,732,129
Unfavorable rate revenue contracts	$ 53,420	$ (47,229)	$ 6,191
Total intangible liabilities, net[1]	$ 53,420	$ (47,229)	$ 6,191

(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, 2020:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Licensing contracts	$ 1,040,518	$ (161,890)	$ 878,628
Favorable rate revenue contracts	749,241	(242,914)	506,327
In-place value of market rate revenue contracts	671,134	(165,923)	505,211
Total intangible assets, net	$ 2,460,893	$ (570,727)	$ 1,890,166
Unfavorable rate revenue contracts	$ 53,420	$ (45,166)	$ 8,254
Total intangible liabilities, net[1]	$ 53,420	$ (45,166)	$ 8,254

(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, 2021, amortization expense related to licensing contracts was $17.8 million and $54.3 million, respectively, as compared to $17.6 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, 2021, net amortization expense related to favorable and unfavorable rate revenue contracts resulted in a reduction of operating revenues, net of $10.2 million and $31.1 million, respectively, as compared to $9.6 million and $29.6 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, 2021, amortization expense related to the in-place value of market rate revenue contracts was $8.9 million and $27.0 million, respectively, compared to $8.2 million and $26.3 million for the same periods in the prior year.

6. VARIABLE INTEREST ENTITIES

The Company assesses entities for consolidation in accordance with ASC 810. The Company consolidates 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 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 carrying amounts and classification of the consolidated assets and liabilities of the VIEs included in the Company's consolidated balance sheets were as follows:

(In thousands)	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 27,763	$ 41,635
Restricted cash	17,780	6,991
Accounts receivable, net	61,130	30,231
Derivative assets, current	—	6,432
Other	20,320	23,706
Total current assets	126,993	108,995
Renewable energy facilities, net	3,104,025	3,155,647
Intangible assets, net	603,784	640,579
Restricted cash	5,178	3,355
Derivative assets	11,729	61,114
Other assets	6,646	7,128
Total assets	$ 3,858,355	$ 3,976,818
Liabilities		
Current liabilities:		
Current portion of long-term debt and financing lease obligations	$ 177,440	$ 105,635
Accounts payable, accrued expenses and other current liabilities	29,274	28,533
Derivative liabilities, current	26,830	1,032
Total current liabilities	233,544	135,200
Long-term debt and financing lease obligations, less current portion	1,047,596	1,087,898
Operating lease obligations, less current portion	148,931	152,668
Asset retirement obligations	126,030	121,238
Derivative liabilities	379	785
Other liabilities	46,185	43,654
Total liabilities	$ 1,602,665	$ 1,541,443

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.

7. LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands, except interest rates)	September 30, 2021	December 31, 2020	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	154,000	—	Variable	2.09	Revolving loan
Non-recourse long-term debt:					
Permanent financing	4,914,410	4,936,022	Blended[3]	2.82[4]	Term debt / Senior notes
Financing lease obligations	60,904	62,667	Imputed	5.58[4]	Financing lease obligations
Total principal due for long-term debt and financing obligations	7,029,314	6,898,689		3.34[4]	
Unamortized discounts and premiums, net	4,840	4,298			
Deferred financing costs	(58,898)	(59,298)			
Less: current portion of long-term debt and financing lease obligations	(659,177)	(584,234)			
Long-term debt and financing lease obligations, less current portion	$ 6,316,079	$ 6,259,455			

(1) As of September 30, 2021.

(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) Includes fixed rate debt and variable rate debt. As of September 30, 2021, 51% of this balance had a fixed interest rate and the remaining 49% 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 9. Derivatives*).

(4) Represents the weighted average interest rate as of September 30, 2021.

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. These subsidiaries are legal entities that are separate and distinct from each of TERP Parent, 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 December 16, 2020, one of the Company's subsidiaries entered into a new non-recourse debt construction loan whereby it issued $138.3 million of a variable rate senior secured term loan and secured by a portfolio of approximately 160 MW of wind facilities located in the U.S. As of September 30, 2021, the Company had drawn $108.6 million of the outstanding debt balance. The debt bears interest at a rate per annum equal to three month LIBOR plus an applicable margin of 138 basis points. The proceeds of the draws were used to fund the ongoing repowering of the facilities. See Note 4. *Renewable Energy Facilities* for discussion on the wind facility repowering.

On June 30, 2021, one of the Company’s subsidiaries entered into a new non-recourse refinancing agreement whereby it issued $159.7 million of variable senior secured term loan secured by a portfolio of 60.0 MW of solar facilities located in Canada. The refinancing bears interest at a rate per annum equal to the three month Canadian Dollar Offered Rate (“CDOR”) plus an applicable margin of 125 basis points with a step up of 12.5 basis points on the fifth and tenth closing anniversary. The majority of the proceeds of this refinancing were used to repay in full the existing debt at the facility. The non-recourse refinancing matures on March 31, 2035 and amortizes on a fourteen-year sculpted amortization schedule. The Company entered into interest rate swap agreements with counterparties to hedge the interest payments associated with the debt, paying an average fixed rate of 2.10%. In return, the counterparties agreed to pay the variable interest payments to the lenders.

Spain Project Financings

On August 5, 2021, one of the Company's subsidiaries completed a €262.1 million refinancing agreement of certain non-recourse indebtedness, representing an upsize of approximately €88.7 million (equivalent to $310.3 million and $105.0 million at the closing date, respectively), secured by a 49.9 MW concentrated solar power facility located in Spain. The refinancing consists of €168.8 million variable-rate tranche and €93.3 million fixed-rate tranche (equivalent to $199.9 million and $110.5 million, respectively). The variable-rate tranche bears interest at a rate per annum equal to three months Euribor plus an applicable margin of 160 basis points that increases by 20 basis points after five years. The fixed-rate tranche bears interest at a rate of 2.39% and matures on June 30, 2037. The refinancing amortizes on a sculpted amortization schedule through its respective maturity dates through 2037. The Company entered into interest rate swap agreements with counterparties to hedge the variable cash flows of the debt, paying a fixed rate of 1.38%. In return, the counterparty agreed to pay the variable interest payments to the lenders. The Company used the net proceeds of the refinancing to repay the existing loan, in full, a portion of the Company's Revolver and other corporate purposes.

Also on August 5, 2021, one of the Company's subsidiaries completed a €250.5 million refinancing agreement of certain non-recourse indebtedness, representing an upsize of approximately €133.1 million (equivalent to $296.6 million and $157.6 million at the closing date, respectively), secured by a second 49.9 MW concentrated solar power facility located in Spain. The refinancing consists of €147.2 million variable-rate tranche and €103.3 million fixed-rate tranche (equivalent to $174.3 million and $122.3 million, respectively). The variable-rate tranche bears interest at a rate per annum equal to three months Euribor plus an applicable margin of 160 basis points that increases by 20 basis points after five years. The fixed-rate tranche bears interest at a rate of 2.42% and matures on June 30, 2038. The refinancing amortizes on a sculpted amortization schedule through its respective maturity dates through 2038. The Company entered into interest rate swap agreements with counterparties to hedge the variable cash flows of the debt, paying a fixed rate of 1.39%. In return, the counterparty agreed to pay the variable interest payments to the lenders. The Company used the net proceeds of the refinancing to repay the existing loan, in full, a portion of the Company's Revolver and other corporate purposes.

Non-recourse Debt Defaults

As of September 30, 2021 and December 31, 2020, the Company reclassified $149.5 million and $154.0 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. In addition, the Company reclassified $0.2 million and $10.3 million of non-current restricted cash to current as of September 30, 2021 and December 31, 2020, 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. The defaults as of September 30, 2021 and December 31, 2020 primarily consisted of indebtedness of the Company's 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.

Maturities

The aggregate contractual principal payments of long-term debt due after September 30, 2021, excluding the amortization of debt discounts, premiums and deferred financing costs, as stated in the financing agreements, are as follows:

(In thousands)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total
Maturities of long-term debt[1]	$ 238,282	$ 386,280	$ 880,379	$ 524,821	$ 375,050	$4,624,502	$ 7,029,314

(1) Represents the contractual principal payment due dates for the Company's long-term debt and does not reflect the reclassification of $149.5 million of long-term debt, net of unamortized deferred financing costs of $4.5 million, to current due to debt defaults that existed at September 30, 2021 (see above for additional details).

8. 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)	**2021**	**2020**	**2021**	**2020**
Income (loss) before income tax expense	$ 6,778	$ 2,778	$ (83,738)	$ (64,172)
Income tax expense (benefit)[1]	32,837	(522)	17,079	543
Effective tax rate	484.5 %	(18.8)%	(20.4)%	(0.8)%

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

The overall effective tax rate for the three and nine months ended September 30, 2021 and 2020 was different than the statutory rate of 21% and was primarily due to forecasted U.S. loss as well as effects of foreign operations.

As of September 30, 2021, and December 31, 2020, the Company had not identified any uncertain tax positions for which a liability was required under ASC 740-10.

9. 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, 2021 and December 31, 2020, the fair values of the following derivative instruments were included in the respective balance sheet captions indicated below:

	Fair Value of Derivative Instruments[1]								
	Derivatives Designated as Hedging Instruments			Derivatives Not Designated as Hedging Instruments					
(In thousands)	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Interest Rate Swaps	Foreign Currency Contracts	Commodity Contracts	Gross Derivatives	Counter party Netting[2]	Net Derivatives
As of September 30, 2021									
Derivative assets, current	$ —	$ —	$ —	$ —	$ 17,594	$ —	$ 17,594	$ (2,760)	$ 14,834
Derivative assets	1,207	—	10,378	6,481	211	710	18,987	—	18,987
Total assets	$ 1,207	$ —	$ 10,378	$ 6,481	$ 17,805	$ 710	$ 36,581	$ (2,760)	$ 33,821
Derivative liabilities, current portion	$15,551	$ —	$ 11,969	$ 29,706	$ 2,760	$ 14,004	$ 73,990	$ (2,760)	$ 71,230
Derivative liabilities	31,487	—	—	67,771	383	—	99,641	—	99,641
Total liabilities	$47,038	$ —	$ 11,969	$ 97,477	$ 3,143	$ 14,004	$ 173,631	$ (2,760)	$ 170,871
As of December 31, 2020									
Derivative assets, current	$ —	$ —	$ 3,497	$ —	$ 2,270	$ 2,935	$ 8,702	$ (2,270)	$ 6,432
Derivative assets	—	—	37,033	379	—	24,081	61,493	—	61,493
Total assets	$ —	$ —	$ 40,530	$ 379	$ 2,270	$ 27,016	$ 70,195	$ (2,270)	$ 67,925
Derivative liabilities, current portion	$16,580	$ —	$ —	$ 37,704	$ 22,485	$ 329	$ 77,098	$ (2,270)	$ 74,828
Derivative liabilities	55,176	—	—	112,620	—	—	167,796	—	167,796
Total liabilities	$71,756	$ —	$ —	$150,324	$ 22,485	$ 329	$ 244,894	$ (2,270)	$ 242,624

(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, 2021 and December 31, 2020, 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, 2021 and December 31, 2020 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, 2021 or December 31, 2020, 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, 2021 and December 31, 2020:

(In thousands, except for GWhs)	Notional Amount as of September 30, 2021	Notional Amount as of December 31, 2020
Derivatives designated as hedging instruments:		
Cash flow hedges:		
Interest rate swaps (USD)	221,069	247,957
Interest rate swaps (CAD)	192,515	129,602
Interest rate swaps (EUR)	270,241	288,193
Commodity contracts (GWhs)	4,187	4,689
Derivatives not designated as hedging instruments:		
Interest rate swaps (USD)	171,874	195,149
Interest rate swaps (EUR)[1]	1,007,166	964,559
Foreign currency option contracts (EUR)[2, 3]	—	—
Foreign currency contracts (EUR)[2, 4]	946,000	950,000
Commodity contracts (GWhs)	6,114	6,621

(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. The Company did not designate these derivatives as hedging instruments per ASC 815 as of September 30, 2021 and December 31, 2020.
(3) As of December 31, 2020, the Company had outstanding foreign exchange option contracts to buy and sell €212 million with the same maturity profile, to hedge a portion of the foreign currency risk related to the Company's investment in Spain.
(4) As of September 30, 2021, the Company had outstanding foreign exchange forward contracts to buy and sell €2.9 billion 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, 2021 and 2020 consisted of the following:

(In thousands)	Location of Loss (Gain) in the Statements of Operations	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Interest rate swaps	Interest expense	$ (1,634)	$ 12,158	$ (13,712)	$ 26,745
Foreign currency contracts	(Gain) loss on foreign currency exchange	(24,692)	365	(65,733)	(4,019)
Commodity contracts	Operating revenues, net	8,340	504	18,400	(4,091)
Commodity contracts	Cost of operations	5,211	—	35,699	—

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.

Gains and losses recognized related to derivative contracts designated as hedging instruments for the three and nine months ended September 30, 2021 and 2020 consisted of the following:

Derivatives in Cash Flow and Net Investment Hedging Relationships	Three Months Ended September 30,				
	(Loss) Gain Included in the Assessment of Effectiveness Recognized in OCI, net of taxes[1]		Location of Amount Reclassified from AOCI into Income	Loss (Gain) Included in the Assessment of Effectiveness Reclassified from AOCI into Income[2]	
(In thousands)	2021	2020		2021	2020
Interest rate swaps	$ (702)	$ (1,712)	Interest expense, net	$ 3,232	$ 3,011
Commodity contracts[3]	(11,472)	(59)	Operating revenues, net	1,464	(330)
Total	$ (12,174)	$ (1,771)		$ 4,696	$ 2,681

(1) Net of $0.6 million tax expense for the three months ended September 30, 2021. Net of $0.7 million tax benefit was recorded for the three months ended September 30, 2020.
(2) No tax expense or benefit was recorded for the three months ended September 30, 2021 and 2020.

Derivatives in Cash Flow and Net Investment Hedging Relationships	Nine Months Ended September 30,				
	(Loss) Gain Included in the Assessment of Effectiveness Recognized in OCI, net of taxes[1]		Location of Amount Reclassified from AOCI into Income	Loss (Gain) Included in the Assessment of Effectiveness Reclassified from AOCI into Income[2]	
(In thousands)	2021	2020		2021	2020
Interest rate swaps	$ 9,728	$ (41,479)	Interest expense, net	$ 9,982	$ 7,262
Foreign currency contracts	—	20,890	Gain on foreign currency exchange, net	—	—
Commodity contracts[3]	(131,836)	(594)	Operating revenues, net	91,730	(3,499)
Total	$ (122,108)	$ (21,183)		$ 101,712	$ 3,763

(1) Net of $3.2 million tax expense for the nine months ended September 30, 2021. Net of $5.5 million tax benefit was recorded for the nine months ended September 30, 2020.
(2) No tax expense or benefit was recorded for the three and nine months ended September 30, 2021 and 2020.
(3) Represents the change in fair value and it's related loss incurred on settlements primarily due to the severe weather event in Texas .

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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:

	As of September 30, 2021				As of December 31, 2020			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Interest rate swaps	$ —	$ 7,688	$ —	$ 7,688	$ —	$ 379	$ —	$ 379
Commodity contracts	—	—	11,088	11,088	—	—	67,546	67,546
Foreign currency contracts	—	15,045	—	15,045	—	—	—	—
Total derivative assets	$ —	$ 22,733	$ 11,088	$ 33,821	$ —	$ 379	$ 67,546	$ 67,925
Liabilities								
Interest rate swaps	$ —	$ 144,515	$ —	$ 144,515	$ —	$ 222,080	$ —	$ 222,080
Commodity contracts	—	—	25,973	25,973	—	329	—	329
Foreign currency contracts	—	383	—	383	—	20,215	—	20,215
Total derivative liabilities	$ —	$ 144,898	$ 25,973	$ 170,871	$ —	$ 242,624	$ —	$ 242,624

The Company's interest rate swaps and foreign currency 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 9. Derivatives*) are considered Level 3 as they contain significant unobservable inputs.

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, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Beginning balance	$ 6,986	$ 49,793	$ 67,546	$ 59,312
Realized and unrealized losses:				
Included in other comprehensive (loss) income	(11,473)	(59)	(131,837)	(594)
Included in operating revenues, net	(12,393)	(583)	(132,744)	(554)
Settlements	1,995	(1,900)	182,150	(10,913)
Ending balance	$ (14,885)	$ 47,251	$ (14,885)	$ 47,251

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, 2021 are as follows:

(In thousands, except range)	Fair Value as of September 30, 2021				
Transaction Type	**Assets**	**Liabilities**	**Valuation Technique**	**Unobservable Inputs as of September 30, 2021**	
Commodity contracts - power	$ 11,088	$ 25,973	Option model	Volatilities	19.0%
					Range[1]
			Discounted cash flow	Forward price (per MWh)	$14.98 - $95.95

(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.

11. 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, 2021, the Company had outstanding letters of credit drawn under the Revolver of $99.8 million and outstanding project-level letters of credit of $385.2 million drawn under certain project level financing agreements, compared to $124.9 million and $351.8 million, respectively, as of December 31, 2020.

On July 16, 2021 the Company entered into a new letter of credit facility for $50 million guaranteed by Export Development Canada ("EDC"). The Company has withdrawn $7.2 million on this facility.

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 guaranties 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 guaranties 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 guaranties. The Company believes the probability of payments being demanded under these guaranties is remote and no material amounts have been recognized for the underlying fair value of guaranty obligations.

Operating Leases

The Company has operating leases for renewable energy production facilities, land, office space, transmission lines, vehicles and other operating equipment. See *Leases* section within *Note 2. Summary of Significant Accounting Policies* for details of the Company's lease arrangements.

Long-Term Service Agreements

On August 10, 2018, the Company executed an 11-year framework agreement with affiliates of General Electric ("GE") that, among other things, provides for the roll out, subject to receipt of third-party consents, of project level, long-term service agreements ("LTSA") for turbine operations and maintenance "O&M", as well as other balance of plant services across the Company's 1.6 GW North American wind fleet. As of September 30, 2021, 15 project-level LTSAs were in place. Pursuant to the LTSAs with GE, if a facility generates less than the resource-adjusted amount of guaranteed generation, GE is liable to make a payment to the Company, as liquidated damages, corresponding to the amount of operating revenues lost due to such shortfall, after taking into account certain exclusions. In addition, if a facility generates more than the resource-adjusted amount of guaranteed generation, the Company has an obligation to pay a bonus to GE.

On November 1, 2019, the Company executed a 10-year framework agreement with SMA Solar Technology that, among other things, provides for the roll out, subject to receipt of third-party consents, of project level LTSAs for solar O&M, as well as other balance of plant services across the Company's North American solar fleet.

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.

12. 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.

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 Incentive Distribution Rights ("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.

On July 31, 2020, upon the completion of the Brookfield Renewable Merger Transaction, as discussed above, TERP NY, TerraForm Power Holdings, Inc. 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. There were no IDR payments made by the Company pursuant to the Terra LLC Agreement during 2020.

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 $0.2 million and $0.7 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, 2021, respectively, as compared to $0.9 million and $0.9 million for the same period in 2020.

Due from Affiliates

The $0.2 million due from affiliates amount reported on the consolidated balance sheets as of September 30, 2021 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 $3.0 million due to affiliates amount reported in the unaudited condensed consolidated balance sheets as of September 30, 2021 represented payables to affiliates of Brookfield of (i) $1.8 million for services and fees incurred by an affiliate of Brookfield on behalf of the Company related to acquisitions in Spain and (ii) $1.2 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 $2.4 million due to affiliates amount reported in the consolidated balance sheets as of December 31, 2020 represented payables to affiliates of Brookfield of (i) $1.8 million for services and fees incurred by an affiliate of Brookfield on behalf of the Company related to acquisitions in Spain, (ii) $0.4 million for O&M services payable to an affiliate of X-Elio and (iii) $0.2 million payables related to rent, office charges and other services to affiliates of Brookfield related to the Company's corporate headquarters in New York.

During the three and nine months ended September 30, 2021, the Company paid to affiliates of Brookfield $1.5 million and $3.1 million, respectively, for leasehold improvements, rent, office charges and other services with affiliates of Brookfield. 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.

Pass-Through Hedging Arrangements

The Company is party to certain pass-through hedging arrangements with a subsidiary of Brookfield Renewable. These are pass-through arrangements whereby the Brookfield Renewable subsidiary facilitates the transactions, but passes on all costs and benefits of the transactions to the Company. During the three and nine months ended September 30, 2021, the Company recognized zero and $61.5 million, respectively in gains through these arrangements.

Cash Distributions Paid

During the three and nine months ended September 30, 2021 the Company paid cash distributions totaling $100 million and $511.2 million, respectively, to TERP Parent, its indirect parent. During the three and nine months ended September 30, 2020 the Company paid cash distributions totaling $26 million and $117.0 million, respectively, to TERP Parent, its indirect parent.

13. 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, 2019	$ 11,138	$ 20,656	$ 31,794
Other comprehensive income (loss):			
Net unrealized (loss) gain 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

(In thousands)	Foreign Currency Translation Adjustments	Hedging Activities[1]	Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2020	$ 53,979	$ (15,025)	$ 38,954
Other comprehensive (loss) income:			
Net unrealized loss arising during the period (net of zero and $3,193 tax expense, respectively)	(11,985)	(122,108)	(134,093)
Reclassification of net realized gain into earnings (net of zero tax impact)	—	96,024	96,024
Other comprehensive loss	(11,985)	(26,084)	(38,069)
Accumulated other comprehensive income (loss)	41,994	(41,109)	885
Less: Other comprehensive loss attributable to non-controlling interests	—	(19,757)	(19,757)
Balance as of September 30, 2021	$ 41,994	$ (21,352)	$ 20,642

(1) See *Note 9. 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.

14. NON-CONTROLLING INTERESTS

Non-controlling interests in subsidiaries that are redeemable either at the option of the holder or at fixed and determinable prices at certain dates are classified as redeemable non-controlling interests in subsidiaries between liabilities and member's equity in the consolidated balance sheets. The redeemable non-controlling interests in subsidiaries balance is determined using the hypothetical liquidation at book value method for the VIE funds or allocation of share of income or losses in other subsidiaries subsequent to initial recognition; 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, 2021 and 2020:

	Nine Months Ended September 30,	
(In thousands)	**2021**	**2020**
Balance as of January 1	$ 7,931	$ 22,884
Net loss	(10)	(14)
Distributions and buyout of redeemable non-controlling interests	(33)	(286)
Repurchases of redeemable non-controlling interests, net[1]	(7,171)	(14,645)
Other	13	—
Balance as of September 30	$ 730	$ 7,939

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

15. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 15, 2021 and determined that there have been no additional events that have occurred, other than what has been disclosed below, that would require adjustments to our disclosures in the unaudited condensed consolidated financial statements.

On October 12, 2021, one of the Company's subsidiaries completed a C$24.6 million ($19.7 million) upfinancing associated with a 78 MW wind facility located near the municipality of Chatham-Kent, Ontario. The upfinancing is subject to a fixed interest rate of 3.54% and fully amortizes through its maturity date of December 31, 2030. The Company used the net proceeds of the upfinancing to pay down corporate revolver draws.

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

This Management’s Discussion and Analysis for the three months ended September 30, 2021, 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 period ended September 30, 2021 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 Parent, LLC (“TERP Parent”), a Delaware limited liability company and the successor entity to TerraForm Power, Inc. (“TERP Inc.”). TERP Parent 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 12. Related Parties*, on July 31, 2020, TERP Inc. merged with and into TerraForm Power NY Holdings, Inc. (“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. Subsequently, on March 15, 2021, TERP NY merged with and into its wholly-owned direct subsidiary, TERP Parent, with TERP Parent surviving the merger. The Company is a controlled affiliate of Brookfield Asset Management Inc. (“Brookfield”).

Our primary business strategy is to acquire, own and operate solar and wind assets in North America and Western Europe. We are the owner and operator of over 4,200 MW diversified portfolio of high-quality solar and wind assets, underpinned by long-term contracts. Significant diversity across technologies and locations coupled with contracts across a large, diverse group of creditworthy counterparties significantly reduces the impact of resource variability on cash available for distribution and limits our exposure to any individual counterparty.

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 4,219 MW as of September 30, 2021 and December 31, 2020.

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, 2021 and 2020 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In GWh)	**2021**	**2020**	**2021**	**2020**
Solar segment	540	597	1,608	1,698
Wind segment	1,163	1,101	3,627	4,036
Regulated Solar and Wind segment	623	630	1,596	1,524
Total	2,326	2,328	6,831	7,258

Consolidated Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Operating revenues, net	$ 275,824	$ 296,170	$ 864,211	$ 820,261
Operating costs and expenses:				
Cost of operations	65,541	69,769	330,622	189,559
General and administrative expenses	7,876	34,333	39,211	79,369
General and administrative expenses - affiliate	960	4,189	2,172	25,347
Depreciation, accretion and amortization expense	132,666	135,795	409,939	386,094
Total operating costs and expenses	207,043	244,086	781,944	680,369
Operating income	68,781	52,084	82,267	139,892
Other expenses (income):				
Interest expense	75,223	84,044	199,728	247,335
Loss on modification and extinguishment of debt	—	—	—	3,593
Gain on foreign currency exchange	(15,759)	(32,737)	(35,325)	(37,724)
Other	2,539	(2,001)	1,602	(9,140)
Total other expenses, net	62,003	49,306	166,005	204,064
Income (loss) before income tax expense	6,778	2,778	(83,738)	(64,172)
Income tax expense (benefit)	32,837	(522)	17,079	543
Net (loss) income	(26,059)	3,300	(100,817)	(64,715)
Less: Net loss attributable to redeemable non-controlling interests	(7)	(35)	(10)	(14)
Less: Net loss attributable to non-controlling interests	(9,165)	(9,577)	(83,361)	(35,046)
Net (loss) income attributable to member's equity	$ (16,887)	$ 12,912	$ (17,446)	$ (29,655)

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

Operating Revenues, net

Operating revenues, net and GWh sold for the three months ended September 30, 2021 and 2020 and nameplate capacity as of September 30, 2021 and December 31, 2020, were as follows:

	Three Months Ended September 30,		
(In thousands, except for GWh sold)	**2021**	**2020**	**Change**
Solar	$ 102,751	$ 111,972	$ (9,221)
Wind	62,023	56,052	5,971
Regulated Solar and Wind	111,050	128,146	(17,096)
Total operating revenues, net	$ 275,824	$ 296,170	$ (20,346)
GWh sold:	**2021**	**2020**	**Change**
Solar	540	597	(57)
Wind	1,163	1,101	62
Regulated Solar and Wind	623	630	(7)
Total GWh sold	2,326	2,328	(2)

(In MW)	**September 30, 2021**	**December 31, 2020**	**Change**
Solar	1,419	1,420	(1)
Wind	1,863	1,864	(1)
Regulated Solar and Wind	937	937	—
Total nameplate capacity (MW)	4,219	4,221	(2)

Total operating revenues, net for the three months ended September 30, 2021 decreased by $20.3 million over the same period in the prior year primarily due to the suspension of generation tax at our Regulated Solar and Wind Segment and lower resource at our assets in Spain.

Costs of Operations

Cost of operations for the three months ended September 30, 2021 decreased by $4.2 million over the same period in the prior year primarily as the benefit from the suspension of generation tax at our Regulated Solar and Wind Segment was partially offset by the cost of power purchases associated with our hedges in our wind portfolio.

General and Administrative Expenses

Total general and administrative expenses, including those related to affiliates, for the three months ended September 30, 2021 decreased by $29.7 million over the same period in the prior year due to cost reduction initiatives that reduced professional services fees, lower management fees paid to Brookfield due to the merger with Brookfield in July 2020 and one-time merger and acquisition costs of approximately $17 million that occurred in the prior year.

Depreciation, Accretion and Amortization Expense

Depreciation, accretion and amortization expense for the three months ended September 30, 2021 decreased by $3.1 million over the same period in the prior year. The decrease was primarily attributable to the declining carrying value of our renewable energy facilities in operation.

Interest Expense, Net

Interest expense, net for the three months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,		
(In thousands)	**2021**	**2020**	**Change**
Corporate-level	$ 26,503	$ 26,040	$ 463
Project-level	48,720	58,004	(9,284)
Total interest expense, net	$ 75,223	$ 84,044	$ (8,821)

Interest expense, net for the three months ended September 30, 2021 decreased by $8.8 million over the same period in the prior year, primarily due to an increase in unrealized gains resulting from the mark-to-market of interest rate swaps.

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 $15.8 million primarily due to $24.7 million net realized and unrealized gain on foreign currency derivative contracts, offset by a total loss of $8.9 million on the remeasurement of intercompany loans, which are primarily denominated in Euro, for the three months ended September 30, 2021. We recognized a net gain on foreign currency exchange of $32.7 million, for the three months ended September 30, 2020, primarily due to a total gain of $33.4 million on the remeasurement of intercompany loans, which are primarily denominated in Euro, partially offset by a $0.4 million net realized and unrealized loss on foreign currency derivative contracts for the three months ended September 30, 2020.

Other Expense (Income), net

We recognized $2.5 million of other expense, net for the three months ended September 30, 2021, compared to $2.0 million of other income, net for the three months ended September 30, 2020. The balance is primarily comprised of miscellaneous expenses, non-operating expenses and losses net of recoveries and reimbursements.

Income Tax Expense (Benefit)

Income tax expense was $32.8 million for the three months ended September 30, 2021, compared to tax benefit of $0.5 million during the same period in 2020. This variance is mainly driven by the change in the overall effective tax rate as well as higher year-to-date losses in Q3 2021 versus Q3 2020. The overall effective tax rate for the three months ended September 30, 2021 of 484.4% was different than the statutory rate of 21% and was primarily due to forecasted U.S. losses not subject to tax. For the same period in 2020 the overall effective tax rate of (18.8%) was different than the statutory rate of 21% was primarily due to forecasted U.S. losses not subject to tax.

As a limited liability company, the Company’s U.S. taxable losses are allocated to its member. However, although the U.S. based TerraForm Power Operating, LLC is a pass through entity and does not pay tax, under interim reporting, the guidance requires organizations to apply the world-wide tax rate to all earnings unless the earnings are subject to a valuation allowance ("VA") or the forecast cannot be relied upon. Therefore, the Company’s unaudited condensed consolidated financial statements will include the tax provision or liability for the U.S. federal income taxes and 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 $9.2 million for the three months ended September 30, 2021, compared to $9.6 million for the three months ended September 30, 2020 and represents the net share of profits and losses in our partially owned subsidiaries in which we have a controlling interest.

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

Operating Revenues, net

Operating revenues, net and GWh sold for the nine months ended September 30, 2021 and 2020 and nameplate capacity as of September 30, 2021 and December 31, 2020, were as follows:

(In thousands, except for GWh sold)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Change
Solar	$ 272,008	$ 289,948	$ (17,940)
Wind	256,144	202,409	53,735
Regulated Solar and Wind	336,059	327,904	8,155
Total operating revenues, net	$ 864,211	$ 820,261	$ 43,950

GWh sold:	2021	2020	Change
Solar	1,608	1,698	(90)
Wind	3,627	4,036	(409)
Regulated Solar and Wind	1,596	1,524	72
Total GWh sold	6,831	7,258	(427)

(In MW)	September 30, 2021	December 31, 2020	Change
Solar	1,419	1,420	(1)
Wind	1,863	1,864	(1)
Regulated Solar and Wind	937	937	—
Total nameplate capacity (MW)	4,219	4,221	(2)

Total operating revenues, net for the nine months ended September 30, 2021 increased by $44.0 million over the same period in the prior year. This was primarily driven by: (i) a net increase of $21.3 million in node sales from our Texas wind farms; (ii) an $18.8 million increase from both the cost of power purchases associated with hedges in our wind portfolio and the reclassification of the cost of hedges recorded in cost of operations previously recorded as an offset to revenue in the prior year ; (iii) higher market prices realized on generation from our assets in Spain and an increase in production volume partly offset by the suspension of the generation tax at our Regulated Solar and Wind Segment and a decrease in incentive revenues in our Solar segment.

Costs of Operations

Excluding the severe winter storm in Texas during first quarter 2021, cost of operations for the nine months ended September 30, 2021 increased by $28.1 million over the same period in the prior year. The increase is primarily due to additional costs related to the acquisition of solar facilities made in the first quarter of 2020, the timing of major maintenance activities, and property tax refunds received in prior year.

Cost of operations relating to the Texas winter storm event during first quarter 2021 was $113.0 million, which represented the cost of acquiring energy to cover our contractual obligations at our two wind farms that were not generating during the winter event due to freezing conditions, net of hedging initiatives.

The net consolidated impact of the Texas winter storm event to all of our partners during first quarter 2021, net of $52.0 million revenue realized due to higher average market prices noted above, amounted to a $61.0 million loss, of which the Company’s share was not material.

General and Administrative Expenses

Total general and administrative expenses, including those related to affiliates, for the nine months ended September 30, 2021 decreased by $63.3 million over the same period in the prior year. In the prior year, there were one-time merger and acquisition costs of approximately $23 million. Due to the merger with Brookfield in July 2020, there was a reduction in the fees charged by Brookfield for management and administrative services provided to the Company. The charges for this period

was nil and in 2020 amounted to $23 million. Cost reduction initiatives including lower professional services and fees decreased general and administrative expenses by $12 million

Depreciation, Accretion and Amortization Expense

Depreciation, accretion and amortization expense for the nine months ended September 30, 2021 increased by $23.8 million over the same period in the prior year. This increase was in relation to the growth in our portfolio with the acquisitions in Spain in Q1 2020, accelerated depreciation in connection with our repowering two wind power plants, and capital additions placed in service after the third quarter of 2020.

Interest Expense, Net

Interest expense, net for the nine months ended September 30, 2021 and 2020 were as follows:

	Nine Months Ended September 30,		
(In thousands)	**2021**	**2020**	**Change**
Corporate-level	$ 78,637	$ 79,681	$ (1,044)
Project-level	121,091	167,654	(46,563)
Total interest expense, net	$199,728	$247,335	$ (47,607)

Interest expense, net for the nine months ended September 30, 2021 decreased by $47.6 million over the same period in the prior year. This was primarily driven by i) an increase of $35.8 million unrealized gain recorded in interest expense due to mark-to-market of interest rate swaps, and ii) a $6.9 million reduction in interest expense associated with lower interest rates on the refinancing of existing debt.

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 $35.3 million primarily due to a net realized and unrealized gain of $65.7 million on foreign currency derivative contracts partially offset by a loss of $30.4 million on the remeasurement of intercompany loans that are primarily denominated in Euros for the nine months ended September 30, 2021. We recognized a net gain on foreign currency exchange of $37.7 million primarily due to net realized and unrealized gain of $4.0 million on foreign currency derivative contracts and a $33.7 million gain on the remeasurement of intercompany loans, which are primarily denominated in Euros for the nine months ended September 30, 2020.

Other Expense (Income), net

We recognized $1.6 million of other expenses, net for the nine months ended September 30, 2021, compared to $9.1 million of other income, net for the nine months ended September 30, 2020. 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 $17.1 million for the nine months ended September 30, 2021, compared to expense of $0.5 million during the same period in 2020. This variance is mainly driven by the change in the overall effective tax rate as well as higher year-to-date losses in Q3 2021 versus Q3 2020. The overall effective tax rate for the nine months ended September 30, 2021 of (20.4%) was different than the statutory rate of 21% and was primarily due to forecasted U.S. losses not subject to tax. For the same period in 2020 the overall effective tax rate of (0.8%) was different than the statutory rate of 21% was primarily due to forecasted U.S. losses not subject to tax.

As a limited liability company, the Company's U.S. taxable losses are allocated to its member. However, although the U.S. based TerraForm Power Operating, LLC is a pass through entity and does not pay tax, under interim reporting, the guidance requires organizations to apply the world-wide tax rate to all earnings unless the earnings are subject to a valuation allowance ("VA") or the forecast cannot be relied upon. Therefore, the Company's unaudited condensed consolidated financial

statements will include the tax provision or liability for the U.S. federal income taxes and 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 $83.4 million for the nine months ended September 30, 2021, compared to $35.1 million for the nine months ended September 30, 2020 and represents the net share of profits and losses in our partially owned subsidiaries in which we have a controlling interest. The $48.3 million increase was driven by our sale of interest in a wind portfolio in the fourth quarter of 2020 and allocations of the losses due to the severe weather event in Texas.

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 not 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, 2021 and 2020:

	Three Months Ended September 30, 2021				
(In thousands)	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	$ 28,071	$ (10,916)	$ 11,909	$ (45,951)	$ (16,887)
Net income (loss) attributable to redeemable and non-redeemable non-controlling interests	2,221	(11,393)	—	—	(9,172)
Net income (loss) attributable to member's equity	30,292	(22,309)	11,909	(45,951)	(26,059)
Depreciation, accretion and amortization expense[1]	41,547	49,260	54,973	404	146,184
Interest expense, net	19,478	14,253	14,988	26,504	75,223
Non-operating general and administrative expenses[2]	(1,000)	—	—	175	(825)
Acquisition costs, including affiliate	—	—	—	80	80
Income tax expense (benefit)	773	(573)	3,916	28,721	32,837
Other non-cash or non-operating items[4]	(1,367)	8,909	4,814	(13,314)	(958)
Adjusted EBITDA	$ 89,723	$ 49,540	$ 90,600	$ (3,381)	$ 226,482

	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	$ (20,690)	$ 12,912
Net loss attributable to redeemable and non-redeemable non-controlling interests	10	(9,622)	—	—	(9,612)
Net income (loss) attributable to member's equity	38,090	(35,034)	20,934	(20,690)	3,300
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	(2,435)	(522)
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

(In thousands)	Nine Months Ended September 30, 2021				
	Solar	Wind	Regulated Solar and Wind	Corporate	Total
Net income (loss)	$ 56,821	$ (32,653)	$ 34,253	$ (75,867)	$ (17,446)
Net loss attributable to redeemable and non-redeemable non-controlling interests	(3,193)	(80,178)	—	—	(83,371)
Net income (loss) attributable to member's equity	53,628	(112,831)	34,253	(75,867)	(100,817)
Depreciation, accretion and amortization expense[1]	119,066	156,954	167,464	1,147	444,631
Interest expense, net	55,225	37,539	28,327	78,637	199,728
Non-operating general and administrative expenses[2]	837	—	—	6,128	6,965
Acquisition costs, including affiliate	—	—	—	378	378
Income tax expense (benefit)	1,314	(609)	10,631	5,743	17,079
Other non-cash or non-operating items[4]	2,535	97,667	2,300	(31,899)	70,603
Adjusted EBITDA	$ 232,605	$ 178,720	$ 242,975	$ (15,733)	$ 638,567

(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	$ (123,082)	$ (29,655)
Net loss attributable to redeemable and non-redeemable non-controlling interests	(5,703)	(29,357)	—	—	(35,060)
Net income (loss) attributable to member's equity	64,679	(40,597)	34,285	(123,082)	(64,715)
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 (benefit) expense	1,134	(361)	1,637	(1,867)	543
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

(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 which 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, 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, one-time blade repairs related to the preparation for GE transition, and adjustment for economic impact from tax equity amendments following the severe weather event in Texas.

The following table reconciles our Operating revenues, net to Adjusted EBITDA for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30, 2021				
(In thousands)	**Solar**	**Wind**	**Regulated Solar and Wind**	**Corporate**	**Total**
Operating revenues, net	$ 102,751	$ 62,022	$ 111,051	$ —	$ 275,824
Unrealized loss on commodity contract derivatives, net[1]	—	10,330	—	—	10,330
Amortization of favorable and unfavorable rate revenue contracts, net[2]	2,303	7,972	—	—	10,275
Adjusted Revenue	105,054	80,324	111,051	—	296,429
Direct operating costs	(15,331)	(30,784)	(20,451)	(5,759)	(72,325)
Settled FX gain	—	—	—	2,378	2,378
Adjusted EBITDA	$ 89,723	$ 49,540	$ 90,600	$ (3,381)	$ 226,482

	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
Other items[3]	—	—	—	—	—
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

(In thousands)	Nine Months Ended September 30, 2021 Solar	Wind	Regulated Solar and Wind	Corporate	Total
Operating revenues, net	$ 272,009	$ 256,142	$ 336,060	$ —	$ 864,211
Unrealized loss on commodity contract derivatives, net[1]	—	36,308	—	—	36,308
Amortization of favorable and unfavorable rate revenue contracts, net[2]	7,214	23,917	—	—	31,131
Other items[3]	—	57,069	—	—	57,069
Adjusted Revenue	279,223	373,436	336,060	—	988,719
Direct operating costs	(46,618)	(194,716)	(93,085)	(18,111)	(352,530)
Settled FX gain	—	—	—	2,378	2,378
Adjusted EBITDA	$ 232,605	$ 178,720	$ 242,975	$ (15,733)	$ 638,567

(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
Other items[3]	—	—	—	—	—
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

(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, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Revolving Credit Facilities[1]	$ 154,000	$ —
Senior Notes[2]	1,900,000	1,900,000
Non-recourse long-term debt, including current portion[3]	4,975,314	4,998,689
Long-term indebtedness, including current portion[4]	7,029,314	6,898,689
Total member's equity and redeemable non-controlling interests	1,822,989	2,489,033
Total capitalization	$ 8,852,303	$ 9,387,722
Debt to total capitalization	79 %	73 %

(1) Represents the amounts drawn under our Revolver, and does not include the $99.8 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 $54.1 million and $55.0 million of net unamortized debt premiums, discounts and deferred financing costs as of September 30, 2021 and December 31, 2020, 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 as discussed and defined below), unused debt capacity at our projects, non-core asset sales and proceeds from the issuance of debt 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, 2021, our current liabilities exceeded our current assets by $283.7 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 $149.5 million of long-term non-recourse debt classified as current due to defaults that existed at September 30, 2021. 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 7. 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, 2021 and December 31, 2020:

(In thousands)	September 30, 2021	December 31, 2020
Unrestricted corporate cash	$ 15,652	$ 74,588
Project-level distributable cash	44,604	31,104
Cash available to corporate	60,256	105,692
Credit facilities:		
Committed revolving credit facility	800,000	800,000
Drawn portion of revolving credit facilities	(154,000)	—
Revolving line of credit commitments	(99,750)	(124,904)
Available portion of credit facilities	546,250	675,096
Corporate liquidity	606,506	780,788
Other project-level unrestricted cash	198,730	173,714
Project-level restricted cash	91,330	103,824
Available capital	$ 896,566	$ 1,058,326

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, 2021, 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 2021	2022	2023	2024	2025	Thereafter	Total
Maturities of long-term debt[1]	$ 238,282	$386,280	$880,379	$524,821	$ 375,050	$4,624,502	$ 7,029,314

(1) Represents the contractual principal payment due dates for our long-term debt and does not reflect the reclassification of $149.5 million of long-term debt, net of unamortized deferred financing costs of $4.5 million, to current due to debt defaults that existed at September 30, 2021. See *Note 7. Long-term Debt* to our unaudited condensed consolidated financial statements for additional details.

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, 2021 Compared to Nine Months Ended September 30, 2020

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

	Nine Months Ended September 30,		
(In thousands)	2021	2020	Change
Net cash provided by operating activities	$ 314,587	$ 179,848	$ 134,739
Net cash used in investing activities	(57,148)	(69,376)	12,228
Net cash used in financing activities	(277,540)	(126,505)	(151,035)

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $314.6 million for the nine months ended September 30, 2021 compared to $179.8 million for the same period in the prior year, reflecting the continued strong operating performance of our business during the period as well as the timing of sales and collections from customers and payment of vendors.

Net Cash Used in Investing Activities

Net cash used in investing activities was $57.1 million for the nine months ended September 30, 2021, compared to $69.4 million for the same period in the prior year. Our continued investment in our renewable energy facilities, including the development of power generation assets, ongoing repowering initiatives, and sustaining capital expenditures, was $89.8 million for the current period. For the nine months ended September 30, 2020, capital expenditures of $27.8 million related primarily to sustaining capital expenditures and investments of $79.8 million were funded by proceeds from our financing activities noted below.

Net Cash Used in Financing Activities

Net cash used in financing activities was $277.5 million for the nine months ended September 30, 2021 compared to $126.5 million for the same period in the prior year. The net up-financing proceeds received from non-recourse financings and draws on our Revolver were used to fund the growth of our business as discussed above in our investing activities, were more than offset by the repayments of borrowings and cash distributions.

Off-Balance Sheet Arrangements

We enter into guarantee arrangements in the normal course of business to facilitate commercial transactions with third parties. See *Note 11. 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, 2021, the estimated fair value of our debt was $7,558.6 million and the carrying value of our debt was $6,975.3 million.

As of September 30, 2021, our non-recourse permanent financing debt was at both fixed and variable rates. 49% of the $4,914.4 million balance had a variable interest rate and the remaining 51% 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 100 basis points, or 1%, 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 $51.1 million or $54.1 million for the nine months ended September 30, 2021, respectively.

Foreign Currency Risk

During the nine months ended September 30, 2021 and 2020, 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 decreased or increased our earnings by $35.6 million or $35.6 million, for the nine months ended September 30, 2021. 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 5% increase or decrease in electricity sales prices pertaining to commodity swaps not designated as hedges would have decreased or increased our earnings by $4.3 million or $4.5 million for the nine months ended September 30, 2021, 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, 2021, we earned $336.1 million from the Spanish Electricity System of which majority was billed through the CNMC and represented 39% 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.

Risks and Uncertainties About the COVID-19 Pandemic

We continue to monitor and evaluate the global COVID-19 pandemic and are taking steps to mitigate the known risks it poses on our business. In virtually every jurisdiction in which we operate, significant restrictions have been imposed on non-essential business activity. Our business, as a producer of energy and a provider of critical infrastructure services, is typically exempt from these types of restrictions, and as a result we are generally permitted to continue our ordinary course of operations. In addition, we have taken steps to ensure that our employees and contractors are safe, including the closures of our New York City headquarters and Gatineau offices during 2020 and implementing a business continuity plan to ensure our employees are best able to meet our business needs while working remotely.

While the full impact on our business is unknown and difficult to predict, we believe the Company is well positioned to manage the known risks arising from the COVID-19 pandemic. Approximately 95% of our revenue is earned pursuant to long term power purchase agreements ("PPAs"), and over 90% of our customers have either an investment grade credit rating or are municipalities with investment grade characteristics. In our Regulated Solar and Wind operating segments in Spain, reduced demand for energy resulting from the economic slowdown has resulted in lower market prices for power; however, this

decrease should be offset by regulatory revenues that adjust market rates to ensure renewable energy generators achieve a long-term reasonable rate of return.

There are a number of factors that we believe may mitigate our exposure to loss and disruption caused by the pandemic. We believe our business is relatively less labor intensive than many other industries, meaning it can function with relatively little person-to-person interaction. Also, since our assets are predominantly operational, our exposure to potential supply chain disruptions is smaller than businesses that are more focused on construction and development. We are also working proactively with our operations and maintenance ("O&M") providers to mitigate the impact of the pandemic on our operations by ensuring that they have appropriate business continuity plans in place in order to safeguard the health of our employees and contractors as well as ensure that our wind and solar plants continue to generate power and operate normally.

However, the future impact of the pandemic is uncertain. For example, a portion of the offtakers in our distributed generation business are commercial retailers and other businesses who are more exposed to economic stress caused by the pandemic than we are and if some or all of these offtakers restructure or liquidate their businesses, our cash flows from these projects might be put at risk, which could have an adverse impact on our business, results of operations, financial condition and/or cash flows. A prolonged disruption caused by the pandemic could also limit the availability of certain parts required to operate our facilities and adversely impact the ability of our O&M contractors and other service providers to service our equipment, which may result in operational delays and underperformance. It could also adversely impact our efforts to repower certain facilities, causing important construction milestones to be missed. Remote working for a prolonged period of time could mean that the Company faces challenges ensuring that its employees are able to meet the Company's business needs, which could cause significant disruptions to our business operations, particularly in the regions that have been severely impacted by the pandemic. While most of our portfolio is contracted over the long term, a prolonged decline in demand for electricity could adversely impact our prospects and results of operations.

We believe that 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. While we believe the Company is well-positioned to weather the pandemic, the situation remains fluid and difficult to predict. We continue to monitor the situation to ensure any business interruption or other risk is proactively addressed.