Q3 2020 Earnings Call

Company Participants

- David Povall, Executive Vice President, Development
- Mike Crawley, President & Chief Executive Officer
- Pauline Alimchandani, Chief Financial Officer

Other Participants

- Andrew Kuske
- Ben Pham
- David Quezada
- Mark Jarvi
- Naji Baydoun
- Nelson Ng
- Rupert Merer
- Sean Steuart

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to this Northland Power Conference Call to discuss the 2020 Third Quarter Results. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded, Wednesday, November 11, 2020.

Conducting this call for Northland Power are Mike Crawley, President and Chief Executive Officer; Pauline Alimchandani, Chief Financial Officer; and Wassem Khalil, Senior Director of Investor Relations and Strategy.

Before we begin, Northland's management has asked me to remind listeners that all figures presented are in Canadian dollars and to caution that certain information presented and responses to questions may contain forward-looking statements that include assumptions and are subject to various risks. Actual results may differ materially from management's expected or forecasted results. Please read all forward-looking statement sections in yesterday's news release announcing Northland Power's results and be guided by its contents in making investment decisions or recommendations. The release is available at www.northlandpower.com.

I will now turn the call over to Mike Crawley. Please go ahead.

Mike Crawley {BIO 19260915 <GO>}

Thank you, operator, and good morning to everyone. Thanks for joining us today. Also joining from Tokyo today on the call is David Povall, our Executive Vice President of Development. This morning, we will review our third quarter 2020 financial and operating results and provide an update on the business. Following our remarks, we look forward taking your question and comments.

With the final quarter 2020 underway and what has been extraordinary year, we are pleased with the progress we have made despite the challenges arising from the COVID-19 pandemic. Our underlying business is performing well. And even with the financial impacts experienced year-to-date from negative pricing, curtailments and low wholesale market pricing, we are still able to deliver strong operational results.

I want to start off the call by highlighting a couple of points on the quarter, and Pauline will provide a more detailed look into the financial numbers later in the call. We achieved a healthy growth in adjusted EBITDA, reporting $254 million in the quarter or 13% increase compared to $224 million a year ago.

We recorded free cash flow per share of $0.30 in the quarter compared to $0.41 in 2019, representing a decrease of 27% year-over-year. The decreasing free cash flow was primarily attributable to scheduled principal debt repayments for Deutsche Bucht following the declaration of commercial operations at the end of March.

Now turning to our growth strategy. It has both a near-term and long-term element. Northland is amongst the top 10 global developers of offshore wind. And this is where we are prioritizing our long-term development efforts. New offshore wind markets continue to open, and long-term power purchase agreements are still generally available for offshore wind projects.

These opportunities span multiple geographic locations in Asia and Europe. In many of land constrained countries, there is a high demand forecast for renewable energy. And lots of capital eager to invest in advanced development and operating stage offshore wind projects. This is however -- there is however relatively few companies capable of developing and building offshore wind projects that allow these countries to reach their decarbonization objectives. That is where we see opportunity for Northland.

While our long-term objectives center on offshore wind, our short-term objectives look to investments in onshore renewable projects. These types of projects enhance our financial performance by providing near term cash flow, in part to fund our long-term offshore wind development activities.

In the quarter, we successfully closed the acquisition of three onshore wind farms in New York State with a combined capacity of approximately 300 megawatts. These development states projects expand Northland's North American portfolio by providing investment opportunities into the U.S. renewable market. These acquisitions are part of Northland's long-standing strategy of early entry into projects and leveraging our substantial experience and expertise to successfully complete the development of these projects.

The New York High Bridge, Bluestone and Ball Hill projects, position us to actively participate in the growing renewable market in New York State, which is expected to add an incremental 26 gigawatts of renewable energy by 2030. Our plan is to grow our presence in the U.S. by leveraging the platform of New York wind projects as a base to pursue more projects in the Northeast and in other targeted U.S. markets to establish a portfolio of onshore renewable projects with an expected capacity in excess of 1 gigawatt.

Now turning to our construction activities, work at La Lucha continues with all the major components of the project having been installed. Final work on the step-up and switching substations are being executed, and we are on track for project completion by end of year.

As our first project to be underpinned by commercial and industrial customer offtake agreements, we are progressing to secure those agreements for La Lucha. We expect to have them in hand by the end of the year to coincide with commercial operations. At our Hai Long offshore wind project in Taiwan, the team continues to make progress towards securing corporate power purchase agreements for the remaining 744 megawatt allocation that was secured under an auction process.

As mentioned previously, Hai Long through our auction projects, has the opportunity to pursue PPAs corporations, corporate load, that is of course part of our strategic option to enhance the economic value of the project and -- beyond what we would get from the utility offtake tied to our successful auction bid. We hope to say more on this in 2021.

In Europe, subsequent to the end of the third quarter, Northland Power Europe, a subsidiary of Northland, signed a service agreement with Nordsee One, whereby Northland Power Europe will provide turbine operations and maintenance services to the project. The contract will be effective through to 2027.

Now the advantages of Northland being able to provide these service include gaining a better fundamental understanding of the cost assumptions, underpinning this offshore wind investment and positioning the company for cost competitiveness in a post tariff landscape.

Furthermore, with the expertise and knowledge gained through the execution of these services, Northland will be able to apply these learnings to future offshore wind developments to enhance project profitability while also ensuring a more balanced operational risk profile.

Our regional development teams continue to look for additional development opportunities in other key markets. As opportunities are identified and evaluated, we will invest the appropriate capital to advance these projects and expand our development pipeline.

Lastly, we continue to see significantly higher unscheduled transmission outage losses at Nordsee One and Deutsche Bucht in the third quarter due to grid repairs by the system operator. We expect these outages to continue into the fourth quarter, and Northland is reviewing its options to address these unscheduled outages. We will receive compensation from the grid operator for a portion of these losses.

While these outages are affecting the short-term results at our facilities, we do not expect there to be an issue in the long term once the repairs have been made by the grid operator.

I will now turn the call over to Pauline for a more detailed review of our financial results.

Pauline Alimchandani {BIO 16319027 <GO>}

Thank you, Mike, and good morning, everyone. Last night, Northland Power released operating and financial results for the third quarter of 2020.

As Mike mentioned, despite these challenges we have faced this year, our business continues to deliver solid operating results. Our offshore wind segment has generated nearly $1 billion in revenues through the first nine months of the year, which represents a new first for Northland.

Coupled with strong performance from our other segments of our business, we have generated nearly $902 million in adjusted EBITDA in the first nine months of the year. For the third quarter, we generated adjusted EBITDA of approximately $254 million, which was an increase of $30 million or 13% increase from a year ago. The primary drivers behind the increase in adjusted EBITDA year-over-year include a full quarter contribution from our Deutsche Bucht project and additional contributions from EBSA, which was consolidated from the closing of acquisition in January of 2020.

These two assets contributed approximately $43 million in incremental adjusted EBITDA in the quarter. These results were partially offset by $10 million decrease in operating results at our Gemini and Nordsee One facilities in the North Sea, primarily stemming from lower wind resources during the quarter combined with continued weakness in the wholesale market prices at Gemini and unpaid curtailments at Nordsee One due to unscheduled grid repairs.

Through the first nine months of 2020, as disclosed in our MD&A, we have experienced approximately $59 million of lower revenue as a result of unpaid curtailments due to negative pricing and grid repairs at our German wind farms and lower market pricing at Gemini. With respect to free cash flow, Northland generated approximately $61 million or $0.30 per share in the third quarter. This was a decrease of approximately 18% and 27% respectively compared to the third quarter of 2019.

The single largest driver behind the year-over-year decrease in free cash flow was $43 million or $0.21 per share scheduled increase in principal repayments, primarily attributable to Deutsche Bucht and Grand Bend. Also contributing to the decrease was the previously mentioned grid outages and other items including higher interest and tax expenses and higher development expenditures, details of which are listed in our MD&A. Our rolling four quarter free cash flow payout ratio calculated on a cash dividend basis for the period ended September 30 of 65% compared to 61% payout ratio last year.

On the development front, as we have noted previously, Northland intends to allocate a greater proportion of capital to development expenditure for its growth pipeline including its offshore wind activities. For 2020, this is now expected to total to $0.35 to $0.45 of free cash flow per share of development costs and overhead.

Thus far in 2020, development expenditures and overhead have amounted to approximately $0.25 per share, primarily at our Hai Long project, but also include expenditures at other projects in our development pipeline. Starting mid-July of 2020, as a result of achieving certain milestones, Northland commenced the capitalization of our Hai Long development project in accordance with IFRS. In the nine months ended September 30, Northland incurred $29 million of development expenditures related to Hai Long, of which $16 million was expensed and the remainder was capitalized. These costs relate to site assessment work, including geotech and geophysical work studies, the hiring of personnel now for the project, and other engineering work to advance development of the project.

With respect to our liquidity, Northland remains in a very strong liquidity position. And our recently reintroduced dividend reinvestment program is expected to supplement the funding of select growth initiatives that are continuing to progress. Thus far, we are seeing good 28% participation in our DRIP, which if remained stable, would generate approximately $60 million on an annualized basis to support our growth initiatives.

Turning to our 2020 outlook, I want to make a couple of comments and provide some details on our adjusted EBITDA and free cash flow per share guidance, which is highlighted in our quarterly press release. Our 2020 expectation for adjusted EBITDA remains unchanged, and we continue to forecast achieving between $1.1 billion and $1.2 billion in adjusted EBITDA this year, which speaks to strong operating results, which more than offset the aforementioned lower offshore wind revenues realized as a result of COVID-19 and unusually high third-party grid outages affecting our German facilities.

For free cash flow within our financial guidance released in February of 2020, our assumptions included optimizing the Deutsche Bucht project by refinancing its $1.5 billion senior debt, including the deferral of EUR38 million scheduled debt repayment or $0.30 per share, due in the second half of 2020.

COVID-19 adversely affected lending markets, and as a result, we opted to change our financing optimization strategy for the project. Taking advantage of an improving lending market, the refinancing of the debt is now expected to be completed in 2021. Consequently, the project's future cash flows from 2021 onwards through to maturity of the loan are now expected to improve in lieu of large upfront one-time deferral. The non-deferral of Deutsche Bucht's debt repayment in December 2020 will reduce free cash flow by approximately $0.30 per share for the year, of which $0.15 has already been deducted in the third quarter.

As a reminder, under Northland's free cash flow definition, funds are set aside for scheduled principal repayments in order to allocate semiannual repayments across the quarters to more clearly reflect the company's performance. In accordance with our decision, we have revised our free cash flow per share guidance to reflect the addition of principal repayment. And our revised guidance for free cash flow is now expected to be in the range of $1.60 to $1.70 per share compared to the previous range of $1.70 to $2.05 per share.

Lastly, our balance sheet and available liquidity remain strong with ample access to fund our development initiatives. At the end of the quarter, we had access to $704 million of cash and liquidity. This was an increase from $561 million available at the end of last quarter.

With that, I will now turn the call back over to Mike for his concluding remarks.

Mike Crawley {BIO 19260915 <GO>}

Thank you, Pauline. As always, our primary focus during these times is a health and safety of our employees and all stakeholders. We also feel a great sense of responsibility, as I said before, to continue delivering electricity under our long-term offtake agreements and concessions.

Looking ahead, we continue to see significant growth opportunities with the renewable energy space as a global decarbonization trend gains momentum. Northland aims to be at the forefront of this movement, and our strategy continues to be on making the investments necessary to position ourselves to capitalize on these opportunities. Our growth strategy centers on developing our pipeline of offshore wind projects in Europe and Asia, which will provide significant growth to the company and substantially grow our cash flows in the years to come.

Finally, I'm pleased to announce that Rachel Stephenson will be joining Northland as our Chief People Officer, effective January 1, 2021. Rachel brings to Northland more than 15 years of leadership in human resources, including extensive experience leading human resource strategies and functions for national and global organizations across multiple sectors and technologies, including renewable power, covering North America, Europe and Latin America. Rachel will play a key role in helping us build a culture that attracts, retains and develops high performance talent to deliver on our global growth objectives. And she will be a great addition to our executive team.

That concludes our prepared remarks. We would now be happy to take your questions. Operator, please open the line.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) And your first question is from David Quezada of Raymond James.

Q - David Quezada {BIO 18613628 <GO>}

Thanks. Good morning, everyone. My first question here when you look to fill out that one gigawatt plus portfolio in the Northeastern U.S. I'm curious, I guess a couple of things what would states particularly do you find attractive outside of New York if any? And maybe if you could just briefly comment on I guess the motivation for moving into onshore and how it compares I guess in terms of returns to offshore wind in the state is that primarily a timing issue like the fact that onshore is I guess more near term, is that the primary motivation?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, I mean a couple of points on that, certainly onshore wind and solar, as a developer we can convert a project more quickly into cash flow rate. You can work through your development milestones and into construction and into operation more quickly than for offshore wind. So that certainly is one advantage in terms of kind of balancing out our cash flow. The -- in terms of the markets in New York is particularly attractive, and so far as they've got a very aggressive as I referred to in my prepared remarks, very aggressive renewable energy target.

And they also are now offering what's equivalent to a 20-year optic agreement or 20-year PPAs through what they're calling an IREC to help kind of further stimulate and encourage the development of offshore wind and those as you know are very rare and hard to come by now in onshore renewables. So that's what we like about New York. The -- we've also looked at opportunities in New England as well, where we see similar opportunities more with utility offtake, we have looked at some opportunities in PJM and that's more opportunity specific and in particular understanding either the utility or C&I offtake and then the credit quality and tenor of that offtake to -- it's a bit more granular. Otherwise the team that the David leads and I'll turn it over to him actually is also looking at opportunities on the west coast in California and Washington, Oregon. But David, I've just kind of answer your question -- should have point, believe anything else that.

A - David Povall {BIO 21174053 <GO>}

No. So, mike I think covered it, did very well and I think David, the thing to say it's targeted the U.S. market is obviously extremely large. There's a lot of locations which are very crowded. So team is very focused on those markets which Mike just mentioned I think particularly in New York and we see the opportunity and already seeing some early stage development opportunities that hopefully be able to talk about in -- through 2021 to work towards that one gigawatt pipeline, so nothing else to add to Mike's comments.

A - Mike Crawley {BIO 19260915 <GO>}

And returns, I mean returns would probably be a bit lower than for offshore wind, but with a shorter as a timeline to getting those projects into operation, similar opportunities for sell down to augment her returns. But you typically would have to kind of aggregate a number of projects to really have an effective sell down strategy on onshore where as an offshore you could actually just do it on one single project.

Q - David Quezada {BIO 18613628 <GO>}

Excellent. That's great color. Thank you for that. And then maybe just one more for me on the refinancing for D Bucht, I'm just curious if financing conditions or potential there has improved, I guess similar to what it was pre-pandemic and will you be able to get that optimization done on the terms that you expected back in February?

A - Pauline Alimchandani {BIO 16319027 <GO>}

Thanks for your question. So to answer it simply, yes, the financing the markets have improved, price have improved. They are not at pre-COVID levels, but they are at levels that make it accretive to the value of the project for us to pursue this financing in 2021.

Q - David Quezada {BIO 18613628 <GO>}

Okay, great. Thank you very much, I'll get back in the queue.

Operator

Thank you. Our next question is from Nelson Ng of RBC Capital Markets.

Q - Nelson Ng {BIO 16615616 <GO>}

Great, thanks. First question relates to the acquisition of the onshore winds developments in New York State. I was just wondering whether the $5.6 million purchase price is an upfront payment or is it the total amount to the seller regardless of the outcome? I'm just wondering, if there's like earnouts in milestone payments payable as well?

A - Mike Crawley {BIO 19260915 <GO>}

David, do you want to break that down for Nelson?

A - David Povall {BIO 21174053 <GO>}

Yes. Nelson, we restructure them in I guess a couple of days, some of them portion of upfront, but also some link to financial close and a milestones coming into the projects. So I think in a favorable way for us and obviously we're taking on development list of projects is still have that development is built-in. We're comfortable about managing that, but obviously it was central to profile the payments and accordingly.

Q - Nelson Ng {BIO 16615616 <GO>}

So that $5.6 million is the upfront amount? Is that right, or is that spread over there?

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes.

A - Mike Crawley {BIO 19260915 <GO>}

Yes. I think yes.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. The $5.6 million is spread over time, right?

A - Pauline Alimchandani {BIO 16319027 <GO>}

No. The $5.6 million has been funded during the quarter.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. So that's the upfront and then abate, and then there could be earnout payments and (inaudible) payments for I think afterwards?

A - Mike Crawley {BIO 19260915 <GO>}

Correct.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes.

A - Mike Crawley {BIO 19260915 <GO>}

Yes. The payment (inaudible) milestones about next year's achieve.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. And then from a timeline perspective like how soon would those projects be ready to kind of get bit into future RFPs?

A - David Povall {BIO 21174053 <GO>}

Then actually situation it's moving situation and one that we'll know more in literally a couple of days time. So as Mike indicated the projects already had them like contracts that had been secured previously, but what New York is now moving to is the conversion of those that contacts to what they're calling highway contract. So the concept that you refer to those bidding in subject to what we understand will be announced luckily we hope later this month will not be a process of either beginning would be a conversion of those contracts that we have into the new highway contract. Exact details will say -- we'll know in a couple of weeks time.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay.

A - Mike Crawley {BIO 19260915 <GO>}

Nelson, when we begin looking at these projects we were looking at them with a IREC which we just cover the renewable assets using our revenues streams for that and we would have to market the brown energy right from the projects, which is how the market has been structured in New York. As discussions move forward and as we move forward negotiating the agreement to acquire these projects, the state of New York changed their position and move towards the sort of moving toward this IREC, which had been rumored, which assuming everything works out as we expect would allow these projects to convert to what is effectively a 20 year PPA. So we're keeping a close eye on developments in the coming days as David referred to, but it's -- I think it's one of those opportunities where development is so many things you can control and you manage those and there's something through out of your control and sometimes they go in your favor. Sometimes they go against you and this hopefully we'll see should be a favorable development on those three projects.

Q - Nelson Ng {BIO 16615616 <GO>}

So just to clarify. So one of those projects have a REC contract and it might simply be a conversion into IREC contract where that project might not need to get bit into a process, it's a simple conversion is that?

A - Mike Crawley {BIO 19260915 <GO>}

Yes. Three of those projects are that situation that -- three those projects have REC that we hope will be able to convert into an IREC which would mean that they would not have to bid into an auction.

Q - Nelson Ng {BIO 16615616 <GO>}

I see. Okay. That makes sense. And then just moving over to the offshore wind side. Obviously, there has been a lot of activity in Eastern Europe. I know you've talked about Eastern Europe in the past. Are you able to give any comment or any color on your activities in Poland and like potentially partnering with any local developers as you've done in other regions?

A - Mike Crawley {BIO 19260915 <GO>}

All we can say is that Baltic offshore wind in general both Poland analysis of the three Baltic states. We think offer some good opportunities moving forward in there each one of those countries is Poland obviously being the biggest and the most aggressive are taking steps to really stimulate offshore wind and encourage offshore wind, and it's a market of interest, but we don't have anything at this point beyond that to say.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. And then just one last question. In terms of undertaking the O&M activities at Nordsee One, are you expected to make any cost savings by taking it -- by self performing? And are you also taking on any incremental risk?

A - Mike Crawley {BIO 19260915 <GO>}

I would say there's some modest cost savings, I wouldn't describe it as being particularly material. We view it more as an opportunity to understand better about the operations of the project and the costs involved, so that when it comes off a contract in 2027, we're better able to right-size the OpEx to what would be the new revenue opportunities at that point.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay, and I presume the risk is quite incremental as well?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, but the risks I would say without going to the detail on it, there is not significant amount of incremental risk the way we structure it which is why there is not a significant amount of incremental revenue on it to Northland. Its a -- the objective was as I described, so we weren't looking to kind of extract a huge amount of additional revenue from the project, but more to -- as I said to prepare ourselves for a post contract environment on that project, which is what comes up first, but also Gemini follows in the early 2030s. And so we want to be prepared for that as well and Deutsche Bucht soon after that.

Q - Nelson Ng {BIO 16615616 <GO>}

All right. Thanks, Mike. I'll get back in the queue.

Operator

Thank you. Your next question is from Rupert Merer of National Bank.

Q - Rupert Merer {BIO 15394525 <GO>}

Good morning, everyone. Just a couple of follow-up questions. So first on the service agreement for Nordsee One. What do you need to do to take on the operation and maintenance? Do you have any upfront CapEx or operating costs to us to be able to start the service and do you need to hire very many people or do you do have all that expertise in-house?

A - Mike Crawley {BIO 19260915 <GO>}

So, we have been actually performing this for the last year. So, it initially -- I mean Nelson to some extent strategy comes out of circumstance. So what happens if what -- as you may recall (inaudible) the turbine vendor which had the service contract went into an insolvency procedure and we had anticipated and seen the signs of this developing. So, we kind of started tracking the team that they have that was executing on the service contract in Germany. And when they indeed went into their insolvency procedure and those people became available, we moved in very quickly to hire them and to enter into an interim SMA, which is what we we're operating under the last year, which is how we were able to ensure that there was no interruption of service and that we were able to operate the turbines. I think the same exiting the slightly higher availability than I understand we and over the last year.

So what was the essentially -- initially defensive move to make sure that the project continued operating at the same level of availability opened up an opportunity for us to step in for the long term. So the way it works with the lenders on the project is that they required after that initial year for process to be undertaken to pick a long-term operator up to the end of the subsidy period in 2027.

We submitted bids along with others and our bid was selected by Nordsee One we were obviously refused from the decision. So our minority partner made the decision the slashing and that's how we've come into this role, but we've essentially been performing it all along, and so we've got the same team that we hired relatively quickly last fall and they've been performing extremely well over the last year. So we're quite comfortable with that situation and there's a good to give the obligation on spare parts and maintenance CapEx still does rest with the project itself. So our obligations are more related to response times as opposed to much beyond that.

Q - Rupert Merer {BIO 15394525 <GO>}

Okay. All right. Great. And follow-up on the New York developments. Are there any other development milestones you need to pass to stay on. I think it's a 2022 timeline or is it really just a matter of looking at for the contracts in the IREC at this point?

A - Mike Crawley {BIO 19260915 <GO>}

David, do you want to give an answer or report on that?

A - David Povall {BIO 21174053 <GO>}

Yes, certainly, yes. So, we probably describe them with mid-stage development projects when we first move earlier this year. So, there are still -- the classic development of risks to work through. So, there are still some permitting items we need to close out and then of course the whole procurement cycle as well to go through on both turbines and wider BAP. So that's a live activity that's underway at the moment. We've quite seen coming in and then the combined with the off takes out the things we just talked about with the IREC conversion. So those are working group. There's nothing that concerns me just classic development discs on onshore wind projects and moving towards that financial close in the second half of next year.

Q - Rupert Merer {BIO 15394525 <GO>}

I mean -- these projects are eligible for a 100% PTC?

A - David Povall {BIO 21174053 <GO>}

They again I think is you intend have the PTC work. So we're making sure we are maximizing their ability to use whatever PTC can be available. So if we can get hold of the relevant equipment and qualify for PTC we're doing that and I think as you may know as the 80% PTC was extended as a result of the COVID actions earlier in the year. And so we're looking to see where we can extract that same value into the projects to securing the right equipment.

Q - Rupert Merer {BIO 15394525 <GO>}

Great. Thanks for color. I'll leave it there.

A - Mike Crawley {BIO 19260915 <GO>}

Thanks, Rupert.

Operator

Thank you. The next question is from Sean Steuart of TD Securities.

Q - Sean Steuart {BIO 3363023 <GO>}

Thanks. Good morning. Question for Pauline, I suppose the North Battleford debt upsizing are there other opportunities across the rest of the portfolio from your perspective to free up more liquidity for growth going forward?

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes. They are actively looking at a few opportunities currently.

Q - Sean Steuart {BIO 3363023 <GO>}

Any context on scale or scope?

A - Pauline Alimchandani {BIO 16319027 <GO>}

Not at this time. I think as we move forward. And with our Investor Day and release and guidance we can provide some more details on some of the other financing optimizations that we're currently pursuing.

Q - Sean Steuart {BIO 3363023 <GO>}

Okay. And I wanted to follow up on La Lucha. Mike, you mentioned you expect to have the contract structure in place when the asset starts CoD in the coming months. Can you give us an idea of where you are right now with respect to I don't know, if it's percentage of generation that's contracted. What the average contract duration looks like? Where are you in that process right now?

A - Mike Crawley {BIO 19260915 <GO>}

We're expecting the tenor to be moved, the negotiations are quite advanced to be in and around 10 years. And I think in terms of volume it's in the range of 80% to 100% in that range.

Q - Sean Steuart {BIO 3363023 <GO>}

Okay. That's all I have. The rest of my questions have been asked. Thanks, guys.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Thank you.

Operator

Thank you. Your next question is from Mark Jarvi of CIBC.

Q - Mark Jarvi {BIO 17314717 <GO>}

Yes, good morning, everyone. First question is on La Lucha, one is how are the terms of the contracts and I'll take the -- relative to here going in assumption? And secondly, where do you guys stand in terms of putting some debt on that asset in terms of timing or quantity?

A - Mike Crawley {BIO 19260915 <GO>}

Could you repeat the first part? I just -- I didn't quite clear.

Q - Mark Jarvi {BIO 17314717 <GO>}

Yes, so you said you'd be 80% to 90% contract, but I'm just curious in terms of pricing on the offtake in terms of how that has settled there relative to your expectations going into the project?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, in line with their expectations on the pricing. So in line with RFID case for how we underwrote the investment on that. And then on the financing.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes, the financing is currently in progress, and we would be targeting to close the financing in tandem.

Q - Mark Jarvi {BIO 17314717 <GO>}

Okay. And then given -- make good progress on that looks, let's say appetite to do more sort of capacity in Mexico in the next year or two?

A - Mike Crawley {BIO 19260915 <GO>}

It's good question. So as you know kind of the administration in Mexico has become in the last year a bit more protective of the CFP. The government owned utility and certainly Pemex, the government-owned oil and gas company. And is taken some steps that were designed to support CFD and support Pemex, which in our view and other generators used disadvantaged private generators in Mexico. We along with others pursued recourse through the courts and in just about every situation the court supported the position of the generators and prevented the government action in just about every situation. So that's you know, good, but I would describe our posture on Mexico right now as a somewhat cautious.

We think in the medium term there is great opportunities there, like I said on earlier calls, we certainly watch the presidential election few years -- couple years ago, but we also watch closely on the rectification of the U.S. NCA and that's what we think really drives the second free trade agreement really drives will be continue to be big driver growth in Mexico in terms of industrial load, and also in term of growing middle class in the accretion demand for power from the middle class. So macro speaking medium long term we're big believer in Mexico and we think that they will need a lot new power supply, but we're just being careful what we do in the near term until we can properly assess what the government's posture is with respect to private generators.

Q - Mark Jarvi {BIO 17314717 <GO>}

Okay, that makes sense. And then just putting the applicator is for M&A in your media reports thinking you guys to some efforts in some processes. Just curious where you guys are now in your thinking in terms of the key tenants of an acquisition and whether or not it's entertaining market, adding development capabilities in a short-term or sort of where you guys are thinking in terms of what you guys are look for on any acquisition right now?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, I mean we mean -- similar to answer, there's a number of as with that said we were interested in the Colombian market for both transmission and generation and we saw Absa as a platform to be able to do that. And we're -- I think I have mentioned in earlier calls a teams already looking at some solar projects and other renewable energy projects there in Colombia. So for other acquisition certainly an entry into a market that we are interested in and particularly if we feel it the asset can -- in some form be used as a bit of a platform for further growth that would be one screen that we would put M&A opportunities through. I think also looking at markets that we're already in to the extent that we can get greater scale in some of those markets that certainly is important as well. So I think yes, entry into new markets and the ability to scale up.

And as we mentioned on prior calls, we are looking at kind of new areas for growth that may be kind of relatively small in the near term, but we believe will grow over time such as in renewable fuels, and so that certainly would be another area where we look at be smaller scale acquisitions, but to be able to find our foothold into that sector, but there's a nothing to -- nothing in particular on that. But those of you kind of three highlights. I don't know if you'd add anything to that Pauline.

Q - Mark Jarvi {BIO 17314717 <GO>}

That's helpful Mike. And then last question for me just in terms of Japan, I'll show you guys already had the one joint venture. I think they've been prior conversations about trying to accelerate in looking at other consortiums any update on that or it's now or something that you guys think of you to be able to speak to at the Investor Day in January?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, nothing to announce today mean David's Asian team is certainly looking at opportunities in Korea and Japan and we have an interest in -- still an interest in Europe and there's some markets that are of interest there, but nothing that we would to announce at this point.

Q - Mark Jarvi {BIO 17314717 <GO>}

Okay. Thank you.

Operator

Thank you. Your next question is from Ben Pham of BMO.

Q - Ben Pham {BIO 16421855 <GO>}

Hi, thanks, good morning.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Hi, Ben.

Q - Ben Pham {BIO 16421855 <GO>}

Hi, good morning. You mentioned that you are planning put it the issue report in Investor Day, I'll looking forward to that and you really check in the boxes on gender renewables wrapping that up. I am wondering than with your gas part portfolio, is there any products of launching a sell process that portfolio to reduce scope on emission though, or should review your segment change to efficient gas as a subtle message that you're trying to hold on to those assets?

A - Mike Crawley {BIO 19260915 <GO>}

You're reading a lot of tea leaves there. But -- no, I wouldn't read too much into that change in label. Say that we don't have any plans on a sale process around the thermal assets at this point. All of Northlands growth plan growth going forward is in renewable assets. I think we would also look as I said before at a utility type investment like EBSA if it were opening up as a platform for other growth opportunities in renewables. So that's kind of where we see our growth going forward. We're not looking to invest any more capital in thermal generation going forward as well. And yes, and then I'd like to leave it to Pauline.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes. And the other reason for the name change was just in our conversations with global investors who don't necessarily understand the profile of these assets and that they displaced coal originally. You know and sort of getting marked in a category that we weren't. So we wanted to make that more clear and in all our communications. And then with respect to ESG, obviously ESG is more than our thermal assets. It's a lot about the renewable capacity that we want to develop over the next 10 years really focusing on the direction of this company increasing renewables, increasing capacity, lowering intensity. Also covering portions of the assets that are become really important to our company and to the world and it just into a lot of G components which have been addressed and are continuing to improve. So it's really part of a holistic framework that we're working on and hope to discuss more about in January.

A - Mike Crawley {BIO 19260915 <GO>}

If we were to do anything on our thermal assets. It would only be done with proper regard to cash flow and the long-term sustainability of the company. So it's a balanced decision that would -- that we would have to take if we did anything.

Q - Ben Pham {BIO 16421855 <GO>}

Yes, okay. And then on high one then what do we need to pay attention to on the supply chain that just getting those 14 megawatt turbines then is it port access you needed and what else that we should be focused on?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, I mean, David you want to pick that up and I can jump in later.

A - David Povall {BIO 21174053 <GO>}

Yes, Ben you just explain what you intend to focus on the supply chain, the most of the work on the supply chain now is around finalizing the IRP, which is the localization which I think I've mentioned on prior calls. So that's both working with SGRE on -- for the turbine, the 40 megawatt turbines, but also the wider supply chain around all the other components for the wind farm. So that's where most of the work is in, but is that we meant for your question or maybe just expand a little bit further?

Q - Ben Pham {BIO 16421855 <GO>}

Yes, that's true and I'm more wondering and made my last (inaudible). Is there wouldn't be any issues of procuring turbines, cables, getting resources and not because of COVID-19, but what made because Taiwan maybe not as establish as Europe?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, that's a good point. I understand a bit more now. So obviously that we're not the first project in Taiwan. So obviously the supply chain is starting to be there the service projects have gone before. But there is a need to continue to build capacity. I think as we reported SGRE are looking at establishing and the sell factory local in Taiwan, which obviously there to provide themselves for their 40 megawatt turbine, which ours would be the first project to do that, and information Joey's [ph] perspective. That's also an export-based for them more broadly across Asia. So yes, there are parts of that supply chain, which is in the -- in discussions and will be filled in Taiwan to service the highland project.

Q - Ben Pham {BIO 16421855 <GO>}

Okay, that's great. Thank you.

Operator

Thank you. Your next question is from Andrew Kuske of Credit Suisse.

Q - Andrew Kuske {BIO 4378114 <GO>}

Thank you. Good morning. I think the questions for Mike and it's really on Northlands positioning in the marketplace and when we look at Northland we see those duality where you are a large player in the offshore wind market, but there's a number of players that don't really have a horse in the race, but have network capital looking to get in. And then there's obviously a series of smaller players that really don't have capital, but have some offshore rights. So how do you think about your positioning with that duality?

A - Mike Crawley {BIO 19260915 <GO>}

That's a great question. So the -- I mean just starting out quickly on I mean an onshore renewables we talked about that a bit earlier in the call. And on that we're taking a very targeted approach in different markets where either we think we have an advantageous position or we can create an advantageous position such as through our utility platform in Columbia recognizing that we are one of 100, 200 players globally developing solar and developing onshore wind projects.

Offshore wind you correctly point out, the Northland is one of the amongst top 10 number 5, number 7. So a limited number of players in offshore wind overall, and we're one of the top players in the sector that's set to take off and that is attracting a lot of interest from investors including you're probably alluding to oil and gas majors and others that want to deploy capital into offshore wind. And so our big pivot in the last three years was moving from doing what we did on the first three projects in Europe where we acquired those projects pretty much within a year or so of financial close to actually developing projects and coming in right at inception and in high long and at early stages and some of these other projects that we're getting involved in now recognizing that the capital is no longer scarce for offshore wind projects.

And that there's an aggressive targets for offshore wind in a lot of these markets. And so what will be scarce is projects, quality the projects. And so that's where we're leveraging the team that we've pulled together over these last three projects that we've built in Europe to develop projects for both our own capital, but and getting in early. So that we are getting in before, oil and gas major comes in to bid up the value of a site or something like that or a lease. And also creating an investment opportunity for ourselves. But also creating an opportunity to bring their capital into the project on a sell down as we create more value as we move through the permitting milestones and towards revenue contract and towards financial flows.

So that's our approach to offshore wind and key to it is getting in early and be able to -- and getting an early to establish a foothold and then also having the requisite talent and skills to build or develop a number of these projects across multiple geographies. So that's how I'd characterize. Does that answer your question?

Q - Andrew Kuske {BIO 4378114 <GO>}

It does. That's very useful color and then maybe building upon on just with the scarcity in a competition for projects. You know, what issues do you see in the future on seabed rights? And I know there's broad latitude in a bunch of different markets, but where your position now and perspectives in the future. How do you think about the seabed rights? And how does that factor into that duality?

A - Mike Crawley {BIO 19260915 <GO>}

Well, every market is different. So the U.S. Northeast which thing I've alluded to earlier is in other calls. There's going to be quite a bit of offshore wind built out in the U.S. Northeast and it's a great market for offshore wind just because you can't tight a lot of onshore renewables in those states.

And there's relatively shallow water, so it's good for marketing both those respects and a lot of load a lot of demand. So -- but the challenge that we had as we kept looking at different opportunities in the U.S. Northeast is just the way the market was structured we had a separate process at the federal level lease conducting options for leases and then another process the state level for power purchase agreements both very quickly became very competitive process particularly for the leases. And we saw values get bid way, way up beyond what we would be comfortable paying for a lease up front. And that's where we kind of made a decision that the risk reward was not what we would feel comfortable within U.S. Northeast and we focused on other markets where you can get in and secure site at a much lower cost, and that's where the markets that we focused on.

So, yes, so, I mean that the -- I just say just in closing that the U.S. Northeast in a way was ideally suited for these oil and gas majors to come in and bid up these large leases that the U.S. federal government was putting up, which would put us at a disadvantage and we focus on other markets where we can secure the sights ourselves, develop them and then look to bring in those investors at a later stage as a partner on the projects.

Q - Andrew Kuske {BIO 4378114 <GO>}

That's great. Thank you.

Operator

Thank you. Your next question is from Naji Baydoun of Industrial Alliance.

Q - Naji Baydoun {BIO 21574695 <GO>}

Hi, good morning. Just maybe going back to Columbia. Can you give us any more details on the pipeline of opportunities you see there for renewables either details on the scale of the timing or -- of projects?

A - Mike Crawley {BIO 19260915 <GO>}

The first few projects that we're looking are relatively small scale. So it's solar and we've looked at a couple of hydro opportunities, but haven't decided to move on them at this point, but they're smaller hydro -- smaller scale hydro opportunities, but that's where it's at. I think -- our first step would likely be on a solar project relatively small scale, but we'd hope to build old on that.

Q - Naji Baydoun {BIO 21574695 <GO>}

Okay. And just maybe a question on Taiwan. Just wondering how you're thinking about the upcoming I guess tranches of around three options, just how we think about positioning yourself in to participate in those upcoming rounds and what are some of the criteria for the bidders going into 2021 and some of the other tranches as well?

A - Mike Crawley {BIO 19260915 <GO>}

Yes, I'll turn that over to David. I mean it certainly some advantages that we have given our success on the fit round and the auction round. But, David you want to expand on that a bit?

A - David Povall {BIO 21174053 <GO>}

Yes, absolutely. I think as Mike says it's -- with the position we built in the market. They're both the relationship since it comes some of the key stakeholders obviously particular on the government side and also the confidence we have in the team on the ground. We are actively looking at participation in the round 3 both I think 2022 and then to 2024 this two auction rounds coming. So it also ties in quite nicely with the timing for -- I guess a high long going into (inaudible) and then people obviously becoming available.

We're still waiting for further detail. I think the big one and that's I always talk about this subject on these cohorts, but the localization requirements for the round three projects. Its still not fully understood. And that's going to be really important criteria again back to that supply chain conversation we had earlier, but also of course where your localization just have an impact on costing and hence bidding strategy and bidding pricing. So that's something that we're tracking to relationships and then to fully understand, so we can understand how to position ourselves.

A - Mike Crawley {BIO 19260915 <GO>}

And then a high level to broad considerations are in one hand there could be some synergies from an operating and even perhaps a construction standpoint with our current sites or current projects on in which would make us more competitive. On the other hand everybody knows about Taiwan and offshore wind now, so where we were an early mover several years ago four years or five years ago. Now most of the offshore wind developers are there, so we'd have to get comfortable that we're going to be able to be competitive with whatever sight we may choose to proceed with.

Q - Naji Baydoun {BIO 21574695 <GO>}

Okay, that's helpful. And just to clarify, so you won't be participating in the -- I guess smaller auction next year, but maybe you will participate in the bigger ones and two or three years down the line in Taiwan?

A - David Povall {BIO 21174053 <GO>}

Yes.

A - Mike Crawley {BIO 19260915 <GO>}

Yes, we're sitting looking at the 2022 would be the first option that would participate in.

Q - Naji Baydoun {BIO 21574695 <GO>}

Okay. That's great. Very helpful. Thank you and just congratulations to Pauline on your recent business best executive recognition and awards.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Thank you very much.

A - Mike Crawley {BIO 19260915 <GO>}

Okay. Well, thank you everyone for joining us today. We'll hold our next call following the release of our fourth quarter and full year 2020 results in February. In the meantime, I'd like to thank you for your continued confidence and support and also as I've been reminded to gently remind everybody that it's Remembrance Day and that those in the Eastern Time Zone that there will be a moment of silence at the top of the hour. Thank you very much.

Operator

Ladies and gentlemen, that does conclude the conference call for today. Thank you for participating, and have a pleasant day.