

Brookfield

WSPP Training – CAISO Spring 2014 Market Changes – The Good, the Bad and the Ugly
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Brookfield Renewable Energy Group. Focusing on Renewable Power Generation and Transmission

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Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to changes to hydrology at our hydroelectric stations or in wind conditions at our wind energy facilities; the risk that counterparties to our contracts do not fulfill their obligations, the risk that as contracts expire, we may not be able to replace them with agreements on similar terms; increases in water rental costs (or similar fees) or changes to the regulation of water supply; volatility in supply and demand in the energy market; our operations being highly regulated and exposed to increased regulation which could result in additional costs; the risk that our concessions and licenses will not be renewed; increases in the cost of operating our plants; failure to comply with conditions in, or our inability to maintain, governmental permits; equipment failure; dam failures and the costs of repairing such failures; exposure to force majeure events; exposure to uninsurable losses; adverse changes in currency exchange rates; availability and access to interconnection facilities and transmission systems; occupational, health, safety and environmental risks; general industry risks relating to the North American and Brazilian power market sectors; labour disruptions; our ability to finance our operations due to the status of the capital markets; changes in our credit ratings; changes to government regulations that provide incentives for renewable energy; our ability to identify and complete investment opportunities; our ability to issue equity or debt for future acquisitions and developments being dependent on capital markets; foreign laws or regulation to which we become subject as a result of future acquisitions in new markets; the departure of some or all of Brookfield Asset Management’s key professionals.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. The forward-looking statements represent our views as of the date of this document. For further information on these known and unknown risks, please see “Risk Factors” included in our Annual Information Form filed with securities regulatory authorities. While we anticipate that subsequent events and developments may cause our views to change, we disclaim any obligation to update the forward-looking statements, other than as required by applicable law.

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS MEASURES

This document contains references to Adjusted EBITDA, funds from operations and net asset value which are not generally accepted accounting measures under IFRS and therefore may differ from definitions of Adjusted EBITDA, funds from operations and net asset value used by other entities. We believe that Adjusted EBITDA, funds from operations and net asset value are useful supplemental measures that may assist investors in assessing the financial performance and the cash anticipated to be generated by our operating portfolio. Neither Adjusted EBITDA, funds from operations nor net asset value should be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS. As a result of the Combination, we have presented these measurements on a pro forma basis.

All amounts in U.S. dollars unless otherwise specified.

In April 2014 the CAISO will implement some significant market design changes

- 15-minute market
 - Includes changes to PIRP program
- Bid Floor reduction from -\$30 to -\$150
- Bid cost recovery netted daily for each market individually

THE GOOD



The new 15 minute market will provide necessary enhancements to more effectively integrate renewable generation

- Meets and exceeds requirements of FERC Order 764
- Allows variable energy resources to be scheduled on 15 minutes basis using more granular forecast data (5 minute) versus hourly
 - Forecast based on average of three 5-minute forecast intervals
 - Updated four times per hour
 - Substantially shorter forecast lead times generated at T-37.5 versus T-90
- Allows option for VER to curtail in response to market prices
- Introduces new Participating Intermittent Generation Program (PIRP)
 - Offers option to grandfather into existing PIRP for up to three years if certain criteria is met

The new 15 minute market will also resolve some ongoing market issues

- Resolves issues with existing HASP/RT market paradigm
 - Internal generation and interties will compete and be priced on an equal basis in the RT market
 - Reduces inefficient market uplift costs that result from interties clearing at one price (HASP) and internal generation clearing at another prices (RT 5-min)
- Resolves concerns with virtual bidding on the interties
 - New market design was intended to allow for the reinstatement of VB on the ties

Other market enhancements will provide more incentives for RT market participation for conventional and renewable generators

- Lowers the bid floor from existing -\$30 to -\$150
 - Will provide adequate incentive for renewable generation to curtail in response to over generation
- Bid cost recovery shortfalls and revenues will be netted across the day for each market individually
 - Will provide more incentive for generation participation in RT market potentially providing more flexible generation to CAISO

THE BAD



The 15-minute market will continue to support hourly block bids on the interties but there are new risks for importers/exporters

- Imports that are hourly block schedules can provide economic bids and be cleared in what was previously known as the HASP process but will be price takers to the 15 minute price
- No bid cost recovery will be provided if the 15 minute prices turns out to be lower than the economic bid that cleared the hourly process
 - The bilateral markets around the West are still oriented around hourly transmission and energy purchases
 - Market will likely evolve but it will take time
 - Risk that was previously imbedded in uplift costs is now transferred to importers/exporters
- CAISO provides for option to reduce schedule to zero once per hour if 15 minute price drops below bid price
 - this may not be allowed by host balancing authority or under terms of existing bilateral contracts

THE UGLY



Virtual bidding on the interties will not be reinstated at the onset of the 15 minute market

- Even though market issues are resolved with implementation of new market the CAISO proposes to delay implementation until a year after 15 minute market implementation
 - VB will be reinstated with original position limits that were implemented in 2010
 - Position limits will gradually increase over course of 24 months
 - Always chance that some market participants will continue to challenge reinstatement

Contact me with any questions

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