Innergex Énergie Renouvelable Inc.

First Quarter 2024 Earnings Call

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PRESENTATION

Operator:

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Innergex Renewable Energy's 2024 First Quarter Conference Call and Webcast.

Bienvenue à la conférence téléphonique et à la webdiffusion des résultats du premier trimestre et de l'exercice 2024 d'Innergex énergie renouvelable.

At this time, all lines on the phone and Internet are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session for analysts and institutional investors, and instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star, followed by zero for operator assistance at any time.

I would like to remind everyone that this conference call is being recorded.

I will now turn the conference over to Naji Baydoun, Director, Investor Relations. Please go ahead.

Naji Baydoun — Director, Investor Relations

Hello, everyone, and thank you for joining us today. I'd like to specify that this conference will be held in English. Members of the media are invited to ask their questions by phone after this call. A presentation supporting today's discussion is available as we speak on the homepage of our website at www.innergex.com.

This call contains forward-looking statements within the meaning of applicable securities laws. Although the Corporation believes that the expectations and assumptions on which forward-looking statements are based are reasonable under the current circumstances, listeners are cautioned not to rely unduly on these forward-looking statements as no assurance can be given that it will prove to be correct. Forward-looking information contained herein is made as of the date of this call, and the Corporation does not undertake any obligation to update or revise any forward-looking information, whether as a result of events or circumstances occurring after the date hereof, unless so required by law.

During this call, we will refer to financial measures that are not recognized according to International Financial Reporting Standards. Please refer to the non-IFRS measures section of the MD&A for more information.

On today's call, we will discuss our year-to-date 2024 achievements, our growth and development updates, a review of our Canadian market strategy, our Q1 2024 highlights and results, and our 2024 guidance. Our speakers will be Michel Letellier, President and Chief Executive Officer; Colleen Giroux-Schmidt, Vice President of Corporate Relations and Environment; and Jean Trudel, Chief Financial Officer.

I will now turn the conference over to Mr. Letellier.

Michel Letellier — President and Chief Executive Officer

Thank you Naji, and good morning everybody. Thanks for joining us today.

First of all, I would like to highlight some of the key messages that we'll give you today. Pretty pleased on the improved generation in Q1 2024, including production at 96% of LTA compared to 87% last year. Solid performance, including Adjusted EBITDA proportionate around $171 million and free cash flow per share of $0.21, up 15% and 175% from Q1 2023, respectively. We also stress our pursuing our disciplined and sustainable growth strategy as we are going to explain to you the success that we had lately, and our focus, obviously, on our main markets.

Executing on 2024 growth and financial priority as we all said, we want to make sure that we keep our focus on the main priority, making sure that we are providing us some flexibility in terms of financial opportunities and refinancing, always open to recycling of capital, as we said last quarter.

If we go on the next page, year-to-date achievement, if we start in terms of operation, we're happy to report that our best system, the battery system in Chile on our San Andrés facility has started. COD should come soon. We are injecting electricity in the system, and we're finalizing the COD with our supplier and the coordinator.

Also very happy to have Innavik 7.5-megawatt hydro facility in the north of Quebec. Remember that this is a partnership with our Inuit partners there, we're 50/50. This is a good project in terms of displacing carbon use. We're moving about 90% to 95% of all the diesel that was burned to produce electricity. First full quarter in the middle of the Arctic winter went very well, so it's very encouraging on the rest of the operation on that facility. So pretty happy on that.

In terms of construction, we've been restarting the construction on Boswell. Remember that we had made a winter pause there. Just to give you a quick look at what we have done there the 97 turbine foundations are done. All the roads are done. Our transmission line, 50 kilometres is 95% finished. There's a little bit of re-vegetation and some finalizing touch up on the line, but it's mainly done. We're starting to receive the turbines from GE onsite as we speak. And they should be erected by the end of September and commissioning will start in conjuncture with PacifiCorp during the fall. We should finalize the construction or commissioning by the end of the year, but we depend on PacifiCorp (inaudible) for us to finalize all that commissioning. For our part, will be done and prepared to commission these turbines.

Also progressing on Hale Kuawehi in Hawaii. Again, we're advanced there. Our 11,000 pile has been put, some to be fixed, but that part is done. Fifty percent of the modules are already erected. We received all the procurement batteries and solar panels are on site, so no issue in terms of delivery. We should be starting commissioning also there in the early fall this year, and we are looking for a COD at the end of the year.

We also had four new projects, new wind projects, two development activities in Canada and France, so we're pretty happy to see 425 megawatts now being added in Q1. Also in terms of PPAs, some of those have turned out to be signed PPA. Remember that we have won two projects in Quebec. Pretty pleased to have been selected and being the biggest player in the last RFP in Quebec, 100-megawatt Labotinière Ndakina project, has been renamed. A little bit of difficulties to pronounce it in the beginning, but we'll get used to it. Thirty years PPA with inflation embedded in those PPA. Three hundred megawatt with our First Nation partner and the MRC of Manicouagan has been negotiated. We're finalizing the last negotiation with Hydro-Quebec, we should sign that contract fairly soon as well.

And we have been selected for 350- gigawatt of production that translates to roughly 115, 120 megawatt capacity with Codelco. Remember that Codelco is one of the biggest industrial customers in Chile producing copper. We have been very pleased to be selected by this corporation. It means that they recognize the quality of our portfolio in Chile and our ability to deliver long-term renewable energy. This contract is fully indexed and is for 15 years.

If we look at our growth, as I mentioned, we have increased our project in development. This is obviously very positive because this bucket is obviously one of the most advanced projects that we have before becoming under construction, so very pleased to have doubled that bucket since last quarter with adding in the project that we just talked about, the wind in Quebec and wind project in France as well. We've talked about the construction, the bucket of construction is advancing very well, as well. The idea here is obviously trying to improve on these buckets to make sure that we are growing, and we have a focus on the market that we think we have advantage.

We'll be selective, as we said in the past, we're looking to have roughly 400 megawatts of winning project per year given the great opportunity, and Colleen is going to talk and comment about the opportunity that we have here in Canada. We think we have the ability to be selective and be successful in gaining projects with good financial metrics for us to create value for the shareholders.

If we go to the other page, this is basically the genesis of our growth opportunity. We want to make sure that we have a lot of flexibility for us. We have 10,000 gigawatts of prospective project. Of course, they're at different stages of advancements. But the idea here is to provide us great flexibility in all the market for us to be able to bid in the many opportunities that we see in the four markets that we are playing.

There is, I would say, a focus on Canada. As we said in the past, Canada is our own turf. We think that we have a good advantage being a player with a lot of experience and willingness also to work with First Nations and communities to be partners and developing project together. We have been doing that for the last 20 years, and we think that we have great opportunity for us to be a winning team in the future RFP in these type of contracts.

The idea is to make sure that we have plenty of early stage projects that will migrate towards mid and advanced, and eventually being in the development sector and obviously, hoping to have them under construction and eventually adding to our diversified portfolio. Working on the four markets that we said we'll be active: France, Canada, United States and Chile, with perhaps a little bit of a focus more on Canada in the next few quarters.

I have the pleasure to present to you, Colleen Giroux-Schmidt. She's been with us for the last 13 years. Colleen is leading our efforts with all the stakeholders, community, First Nations, environment. She has a lot of experience. She's been at this job for quite a bit of time and we think we have a great opportunity in Canada. She'll give you the perspective on Canadian opportunities for us.

Colleen, can you join us?

Colleen Giroux-Schmidt — Vice President, Corporate Relations and Environment

Thank you, Michel. I'm pleased to be here today to talk about the rapid and sustained growth in demand for renewable electricity that we are seeing across Canada and why Innergex is so well positioned to seize this opportunity.

This is an unprecedented time for renewable electricity. Demand growth is consistently being forecast to at least double by 2050, a pace which we have not experienced before. In the past, demand was driven by top-down political priorities, which changed with the political winds. Today, we are seeing that in addition to top-down policy polls, there is an equally strong push for more non-emitting energy coming from load, making the opportunities much more durable.

Increasingly, global corporations are looking for cost-effective, reliable, renewable electricity when deciding where to invest and establish their operations, making it an economic necessity for provinces to have a sufficient supply. This is in addition to the demand growth as existing customers electrify and grow their use.

Canadian utilities provide some of the highest quality contracts, and we believe that these PPA structures are desirable. In Canada, we're seeing some of the longest contract tenures in the market with offtake agreements going out to 30 years now for wind and solar. We are also seeing favourable contract terms, including take-or-pay structures and inflation indexation clauses.

Here at Innergex, we have been working with our Canadian utility customers for decades, and we have a solid foundation to build on to secure our growth as attractive risk-adjusted returns. We are increasingly seeing the provinces open up their grids to allow direct corporate offtake contracts in order to attract more investment and meet that strong business demand. We believe that this could broaden the market of power buyers, which will create additional optionality for our large portfolio of projects here in Canada.

The scale of demand is going to require consistent ongoing procurements. This makes the opportunity for renewable energy and storage projects both durable and sustainable across the provinces compared to the sporadic tenders that we've experienced in the past.

Canada is our home, where we started over 30 years ago. We have a significant market presence coming from our 42 operating assets in Quebec, British Columbia and Ontario. As a result, Innergex has deep experience across provinces in origination, development, construction and the operation of projects, and we can leverage that technological expertise we have developed in other jurisdictions.

Our market leadership is demonstrated through our partnerships with Indigenous communities. Innergex was one of the first companies to develop renewable energy projects that are co-owned with Indigenous communities. It is something we are tremendously proud of and something we've been honoured to repeat many times across the country and through the years.

Today, Indigenous equity participation in projects is increasingly becoming the expectation with incentives or minimum equity requirements in the RFPs. This represents a competitive advantage for Innergex due to our experience, creativity and long track record of developing, constructing and operating projects in this partnership model.

We see some of the largest opportunities for growth in our home market of Canada with over 5,000 megawatts of RFPs expected in 2024 and 2025 that will allow Innergex to generate sustained growth. Hydro-Quebec is leading the way with its ambitious 2035 action plan. British Columbia, Saskatchewan and Ontario have also established impressive targets to further deploy renewable energy solutions over the near and medium term.

In Q1, we are pleased to start the year well, winning 400 megawatts of projects award in Quebec. In Saskatchewan, we are currently participating in a call for 200 megawatts of solar. We are well positioned for future RFPs, such as the recently announced call in British Columbia, its first in 15 years, which is seeking 3,000 gigawatt-hours of new renewable electricity to come online by the end of the decade.

Looking out into 2025, we expect large-scale opportunities in both Quebec and Ontario, which could lead to over 4,000 megawatts of capacity awards in the coming years.

Overall, we are pleased to see the resurgence of growth in Canada and believe that we bring unique capabilities to upcoming RFP processes that will enable Innergex's ongoing success.

Innergex's position in British Columbia is a prime example of our competitive advantage in Canada. We have been investing in BC for over two decades with over $2.5 billion invested to date. Our operating assets make Innergex the largest independent power producer in the province by both installed capacity and annual generation. Our large operating portfolio means that we maintained a strong presence during the procurement lull over the past 15 years. While many other companies stepped away from this market, we saw the future opportunity and continued to build relationships and partnerships. As a result, we are privileged to have earned solid relationships with Indigenous communities, including the 25 partnerships on our operating and development projects. And many of our employees who worked on the previous procurements are still with the company and bring their expertise in BC project development, permitting and construction to this new opportunity.

As is the case across provinces, British Columbia is seeing rapid demand growth for renewable electricity and has strong legislated climate targets in addition to the customer demand. The government is consistently messaging that this will be the first in a series of rolling procurements for clean electricity. We anticipate an abundance of opportunities to rebid projects in future RFPs if the current processes do not align with Innergex's strategic or financial objectives.

Our deep experience in this market, our experienced employees, our valued partners and our portfolio of development projects make Innergex well positioned to succeed in British Columbia and across Canada.

I will now turn it over to Jean to discuss Innergex's performance in the quarter.

Jean Trudel — Chief Financial Officer

Thank you, Colleen. I will begin with the operational highlights for the quarter.

As you can see on the slide, the production in the quarter was led by strong hydro resources with generation well above LTAs and particularly strong performance from our BC facilities. This was partially offset by lower wind regimes and below LTA production in our solar portfolio. Overall, our production proportionate was at 96% of LTA and was up 10% year-over-year.

It is interesting to note that 2% of production was actually affected by curtailment and not due to lack of resources. And the additional battery at San Andrés in Chile that is soon to be fully commissioned, will certainly help mitigate curtailment in the solar segment.

Furthermore, we remain focused on maintaining high portfolio availability to support optimal results. We're happy with the team's performance in Q1 2024 with asset availability at 96% in the quarter. These results of our diversification strategy continue to allow us to balance seasonal variations in production and reduce our overall risk profile. Overall, we continue to proactively manage downtime and maintenance programs to ensure efficient asset management and production of our assets.

Next, let's look at financial highlights for the quarter just briefly.

For the quarter, we generated good results with Adjusted EBITDA proportionate at $171 million, representing a 15% increase year-over-year. This growth was primarily driven by better generation, as highlighted on the previous slide, as well as full quarter contributions from newly added assets, including the SSM solar facilities in Ontario, the Salvador battery energy storage facility in Chile, and the Innavik hydroelectric facility in Quebec. It's important to reinforce that our diversification strategy is working well and that generation is not the only driving force of our results.

We're also pleased with the efforts on cost discipline and will remain focused on prudently allocating resources to maximize our return on investment.

Free cash flow during the quarter was $42.2 million or $0.21 on a per share basis, and the main driver for the free cash flow generation in the quarter versus last year are similar to the previously noted items that contributed to the EBITDA.Now next, a few highlights on Innergex's balance sheet.

As of the end of Q1, we have $6.5 billion of total debt of which the vast majority is nonrecourse project debt and tax equity debt, essentially all at fixed or hedged rates. The sequential change is primarily due to net draws on our credit facility related to under-construction projects, partially offset by scheduled principal debt repayments.

Our nonrecourse project debt remains an important funding tool that allows us to manage project risk, optimize our cost of capital and is backed by the quality of our long-term contracts. We continue to maintain high levels of debt service coverage and the vast majority of our project debt is amortized over the remaining life of our PPA contracts.

Overall, we remain comfortable with our self-amortizing project debt as this conservative approach and financing structure allows us to align our debt repayments with our cash flow profile. In effect, our project debt is fully amortized over the weighted average remaining life of our PPAs, which is currently at around 12 years. This is far below our estimated weighted average portfolio remaining useful life of 40 years, and it provides us with significant refinancing and recontracting opportunities.

We are also maintaining the necessary liquidity to support our growth strategy with more than $0.5 billion of available liquidity to fund our strategic priorities.

In Q1 2024, we also repurchased $5 million of shares under our NCIB and remain active with share buybacks. The quantum and timing of repurchases depends on several factors, including potential success in capital recycling initiatives. In addition, for our DRIP program, we have activated the market purchase option effective as of the April dividend, which limits the dilution to shareholders.

For the remainder of 2024, our CapEx budget is fully funded from construction loans in place and/or our available liquidity, and there are no material changes to our full year outlook. We remain committed to managing our corporate leverage and to self-funding our organic growth.

Now in view our performance in the quarter and the outlook for the rest of the year, we are reaffirming our guidance for 2024. As previously discussed, we expect Adjusted EBITDA proportionate to be in the range of $725 million to $775 million and free cash flow per share before prospective expenses to be in the range of $0.70 to $0.85. The key assumptions behind our 2024 guidance include the production expectations in line with LTAs and asset availability of approximately 95%. We expect to deliver more pronounced growth following the commissioning of our projects under construction and success on future developments.

I will now give the floor to Michel for an update of our 2024 corporate priorities and for closing remarks.

Michel Letellier — President and Chief Executive Officer

Thank you, Jean.

As we said, I'd like to just reinforce some of the messages you heard today. Construction, as we said, we will be focusing on delivering on time and on budget. Our big projects, Boswell and Hale Kuawehi development, we will be active, as you heard Colleen saying, especially in Canada. We'll bid definitely over 500 megawatts. We already bid more than 300 megawatts with our efforts in Chile and Saskatchewan lately. We are aiming at winning 400 megawatts per year just like we did last year. I think this is a fairly conservative target given the opportunity that we have in all our four markets, but we want to be selective. We want to make sure that we are bidding at the price that makes sense financially for us.

We'll ramp up also development activities. As we said in the past, we have now more and more people on the ground being actively developing projects in these markets.

Jean just alluded to financing. We want to make sure that we are focused on managing our balance sheet and open to recycling opportunities as they are becoming available for us; always looking to make sense and create value for our shareholders.

I'd like also to take a moment to highlight our sustainability effort. We just released our ESG report, which reinforces our positioning in the market as a 100% renewable energy provider with negligible GHG emissions. We continue to work on improving our sustainability processes and disclosure. We have to tell our story. I think we are doing a great thing, but we have to make sure that people hear and can read our successes.

Sustainability excellence remains a pillar in our strategy, and we are excited by the potential to support the transition to our greener world, balancing the people, the planet and the prosperity.

Also, I'd like to reemphasize our key takeaway from today's update. We are pleased with the improved generation in the quarter and continue to see the benefit of our unique balanced asset portfolio. Our solid financial performance showed the strength of our cash-generating ability of our operation. We are focused on fuelling our long-term growth through disciplined and sustainable growth strategy as we are on track to deliver on our 2024 commitments.

We are excited about Innergex's future, and we have multiple ways we can win in our market. We are pursuing profitable projects and delivering on our strategy objectives which will help us deliver a strong return for our investors.

In closing, I would like to reiterate why we believe Innergex is a unique investment opportunity and why we are confident in our ability to continue to win in the renewable energy market and deliver shareholder value.

Innergex is 100% renewable energy project developer and operator. We have a high quality, complementary portfolio of assets that are diversified across hydro, wind, solar and battery storage. Our base of premium agri-assets provide a unique advantage for us. Our assets are well balanced across geographies with operations in Canada, U.S., France and Chile. This diversifies our exposure to resources, customers and contracting opportunities. Our assets are supported by high quality PPAs that are indexed to inflation and generating long-term cash flow with limited exposure to merchant pricing.

Finally, our disciplined execution on growth strategy will enable us to deliver strong long-term shareholder return.

Thank you for your attention, and we will be opening the questions.

Q & A

Operator

Thank you. Ladies and gentlemen, should you have a question please press star, one. To withdraw your question, press star, two. Again, to ask a question please press star, one. One moment please for your first question.

Your first question comes from Rupert Merer from National Bank. Please go ahead.

Rupert Merer — Analyst, National Bank Financial

Hello. Good morning everyone.

Michel Letellier — President and Chief Executive Officer

Hello.

Jean Trudel — Chief Financial Officer

Hello Rupert.

Rupert Merer — Analyst, National Bank Financial

If I could start with asking you for a little more colour on your development pipeline. It is mostly wind. It is mostly in Canada. Can you talk about how that's spread across the country? Is it mostly aligned with where you see RFPs and power demand in the future? Will it help you to continue to diversify your portfolio?

Michel Letellier — President and Chief Executive Officer

It’s a good point, Rupert. I think in Canada, we have been participating in Saskatchewan solar RFP. We have put 200 megawatts there. But we think that both in Quebec and BC wind will definitely be more competitive. Hence, we think that we have a better chance to win the RFP, if we are providing wind, if we bid the wind. We have at least four or five projects in BC that we want to put in and we have numerous projects in Quebec in many places. It's a little bit hard to understand where Hydro-Quebec will want to have the wind production in Quebec. Remember that last time they provided us with a target area where we could interconnect. So in order to be flexible, we have projects in all over the areas, so we don't want to get caught short of project in the different area.

We're getting ready for Ontario. Ontario, I said it often, I think we'll have to wake up and smell the coffee down the road. When I said that with BC last year and they finally got it. I think that Ontario will even have a bigger problem down the road. So we're getting ready there. Even though we are not seeing the great visibility on RFP, we think that wind will be competitive in the North. Wind in south of Ontario is good, but the problem is the social licence for that is very, very difficult. So we'll have solar in the Southern Ontario and wind in the North. That's about it.

We have some wind opportunity in Saskatchewan down the road, but we thought that our project was not as competitive this time around so that's why we focused only on the solar in Saskatchewan.

That’s the colour. I don't know if it answers your question, but this is our strategy for Canada.

Rupert Merer — Analyst, National Bank Financial

Great. Thank you. Then looking at the last couple of calls in Canada, it does seem like the winners have been primarily Canadian companies, public and private. Can you give us some colour on why you think that is? Maybe relationships are important, but even beyond those relationships, do you see that changing in the future? Then if you can bridge to talking about your pipeline and give any perspective on the strengths of your pipeline beyond relationships. Do you feel you're in the–as you mentioned you're in a lot of places, but have you got the best resources? Are you close to transmission? Are there any other aspects of your portfolio you think that can get you over the top?

Michel Letellier — President and Chief Executive Officer

That’s a lot of questions, Rupert. To give you a—I don’t know. I guess that international companies will be more present in the rest of Canada. I think Quebec is perhaps a little bit more specific. But definitely, First Nation and community partnerships, especially in Quebec, where we were looking to—I guess, the government and Hydro-Quebec were looking for very strong participation, 50-plus for communities and First Nations. So I think that this is not for everybody. I think that the Canadian companies are most used to this structure. I cannot talk to for other big international companies, but it's definitely different than other places.

I think that in the rest of the Canada, this will also play a big role, especially in BC. Even though the content is 25%, I think that if you're open to have more participation with First Nations in BC, it will be even better.

As for being in the right space, there's a combination of course to have the best resource, but then you have to be able to interconnect, so we're always looking at those two factors when we are putting a lot of effort on the project. Sometimes, the project has less resources, but be very well positioned to interconnect. In today's world, the resources is great, but in the wind side you have all kinds of turbines that you can adapt. I think that the most important thing is making sure that you can interconnect at a reasonable price and at a reasonable delay that the utilities are looking for.

Jean Trudel — Chief Financial Officer

If I may add also, Rupert, I think the demand in everyone's home country is so large right now that the desire or the willingness to export yourself into a country where you're not already, it's probably less important today. That might be also one of the reason why Canadian companies are more present in Canada, and probably in every country, the same probably applies. If you’re not already in a country—we're all extremely busy because of the change in demand worldwide, I guess, in all the countries.

Michel Letellier — President and Chief Executive Officer

Good point.

Rupert Merer — Analyst, National Bank Financial

Great. I’ll leave it there. Thank you very much.

Operator

Your next question comes from Nelson Ng from RBC Capital Markets. Please go ahead.

Nelson Ng — Analyst, RBC Capital Markets

Great. Thanks. Good morning everyone. You've talked a lot about all your development activities in Canada and the upcoming RFPs. Can you talk about Alberta? Are you still avoiding that market in terms of corporate PPAs and things like that? What are some of the factors that keep you away from Alberta?

Michel Letellier — President and Chief Executive Officer

Well, I think it's a market that doesn't have good rules. I think that there's not a capacity payment that stands for. And we never liked Alberta. We're not about to start there. We're avoiding Alberta. It's just we don't foresee ourselves being a good player there, that's all.

Nelson Ng — Analyst, RBC Capital Markets

Okay, great. Can you also touch on the U.S? I know you're busy working on Palomino, but how active are you in the U.S., or have you shifted a lot of your resources to Canada?

Michel Letellier — President and Chief Executive Officer

U.S. is—I don't want to minimize the effort that we will be doing in the U.S. It's just that, we think Canada, we know the market a little bit better. U.S. is a huge market. What we're trying to do is making sure that we are finding some projects that we can have a line of sight on interconnection. This is the biggest headache that we have in the States, is making sure that the effort that we're putting in is—I guess it’s worth the effort given the likelihood or not to be interconnected.

Palomino is a good example. We have everything ready. We have all the permits. We have the offtaker lineup. We have even purchased some panels for that project, but for $5 million of interconnection costs, we've been waiting for the last two years to know an exact date. I'm not saying that the U.S. is all like that, but it is complicated.

That's why we want to be careful. We want to have our people being focused on a few states where we can understand a little bit better the lay of the land, but it's still a great market. I think that we have mastered also—master is a big word, but we have been successful in putting tax equity structure in place. I don't think we are at a disadvantage in the States. But the reason we're talking so much about Canada is that we think we control a little bit more our destiny in Canada than in the U.S., but we're going to be active in the U.S. for sure. It's such a big market. And it helps also the diversification of our activity, both in terms of technology and resources.

Nelson Ng — Analyst, RBC Capital Markets

I see. Then just on prospective project costs, I think obviously, you're very busy and I think they've doubled over the past year to about $9.8 million this quarter. Do you see this trend continuing to move higher, or do you think that level is pretty good for the rest of this year?

Michel Letellier — President and Chief Executive Officer

Well, we're aiming towards around $40 million-ish for the end of the year. That can vary from quarter-to-quarter, but that's why also we took the decision to change the allocation of our capital. If you remember, it’s to make sure that we have some flexibility to take advantage of the great opportunities that we have now. Obviously, we are not slowing down on that expense.

I don't see it doubling next year. I think that the 40-ish is a good run rate, given the amount of people that we have and the setup that we have in terms of ability to deploy our resources and external resources towards these prospective initiatives.

Nelson Ng — Analyst, RBC Capital Markets

Great. I just have one last question and it might be for Jean.

Jean, you mentioned—you touched on it earlier in terms of the solar generation and how it's below average and how batteries should help. I think the solar generation in Texas and Chile has been consistently below average due to economic reasons or other factors. Can you just provide a bit more colour in terms of the generation? Has your U.S. solar or whether it's Phoebe, has that facility been curtailed often, and whether that's due to congestion or other factors? Then can you also touch on Chile in terms of is it just mainly due to negative pricing that’s in Chile?

Jean Trudel — Chief Financial Officer

So, Phoebe, I’ll talk about Phoebe. There's two effects actually at Phoebe; the resource is slightly below our expectation. It varies, of course, but also economic curtailment. So that has been an effect. In the quarter, for example, in the U.S., we were curtailed by about 30,000 megawatt hours solely for—

essentially at Phoebe. That's the effect for Phoebe. And its economic curtailment congestion, as you pointed out. When it's very windy in the region or there's good generation from all the producers, I guess, we get to be economically curtail.

In Chile, it's the same effect; a little bit of the resource, but a large part is actually curtailment. The solar Chilean segment was affected by about 18,000 megawatt hours. That's in the quarter, of course.

Just to give you a perspective, San Andrés, the battery system with five hours of capacity at 35 megawatts, that gives on a yearly basis about 63,000 or 64,000 megawatt hours of production in effect. We would remove curtailment to that tune because you would charge a battery when we're essentially curtailed during midday and then discharge in the shoulder part of the day, so morning and evening. So that and Salvador right now on a yearly basis is another 91,000 megawatt hours. For Chile in total, it's 155,000 megawatt hours of curtailment that would be taken out of the equation.

Michel Letellier — President and Chief Executive Officer

To add to this, when we acquired these solar facility, first of all we paid a discount versus the installed capacity to these, but we had in mind to already put battery.

Remember that we are the first player to have these type of investment in batteries. We have created this trend and obviously, there will be some others that will follow up. But to give you a perspective, we have made this decision based on the $50 per megawatt hour of arbitrage. Right now, we're over $100 of profit between the day and the evening and during the night. So even though we're curtailed, we are actually seeing this as a great opportunity because we're doubling the arbitrage revenue that we were expecting to start with.

Nelson Ng — Analyst, RBC Capital Markets

I see. I guess the economics probably isn't there to add batteries to Phoebe now, the arbitrage?

Michel Letellier — President and Chief Executive Officer

Remember that we're opportunistic in Chile in that aspect. I don't think that the arbitrage will last for the next three, four years, but it will probably last for the next 18 months, two years until others will build out.

But what we have done with Codelco in signing 350 gigawatts is basically we see Chile as a portfolio, and we want to have this asset to be part of our mix to deliver long-term PPAs. So even though the arbitrage would eventually shrink, we have an estimated cost of production in our portfolio average that is below what we are signing for long-term contracts. We’re basically looking at creating a portfolio of assets and our long-term strategy is to serve long-term PPA in Chile.

We're taking this advantage or this opportunity while it is available. That's why we were very quick on the gun to install and invest in battery. We're basically taking advantage of our early initiatives and taking big margin on the arbitrage, but we're not counting on this for the long term. Our long-term strategy is having them being embedded in our portfolio to serve long-term contracts.

Jean Trudel — Chief Financial Officer

Nelson, for Texas ERCOT, the leg that's missing is to have a capacity payment, which we do obtain actually in Chile. The market rewards you for this capacity that's installed. In Texas, it will be solely on arbitrage. So it's a bit more risky proposal and I don't think that the numbers—in our mind, the numbers don't match yet like the investment.

Michel Letellier — President and Chief Executive Officer

Like Jean is saying, remember that Chile—and that's part of Salvador missing revenue in our quarter. We're counting about $7 per kilowatt per month as capacity payment for both Salvador and San Andrés when the coordinator will have finished all their studies. Mind you, we're the first so it's always a little bit more difficult to get all the technical details when you're the first to go through the process, but we're getting very close to have all the permits for Salvador in order to be benefitting from the full capacity payment regarding the batteries.

Nelson Ng — Analyst, RBC Capital Markets

Great. Thanks for all that colour. I'll leave it there.

Michel Letellier — President and Chief Executive Officer

Thank you, Nelson.

Operator

Your next question comes from Nick Boychuk from Cormark Securities. Please go ahead.

Michel Letellier — President and Chief Executive Officer

Good morning.

Nick Boychuk — Analyst, Cormark Securities

Thanks, good morning guys. Can you speak a little bit to the amount of work and specifics around what needs to be done to prepare for the upcoming RFPs? I'm kind of trying to figure out how similar this work is to previous projects in both of these provinces, mainly Quebec and BC, and how comfortable you are with the teams who have done that work previously, doing it again here.

Michel Letellier — President and Chief Executive Officer

Well, I think that Colleen could answer that question regarding British Colombia. I'll give her the perspective. She's in charge of reaching out to community and stakeholders.

Colleen, can you give Nick little bit of colour of what it takes to be present in British Columbia, as an example?

Colleen Giroux-Schmidt — Vice President, Corporate Relations and Environment

Sure. I think the technical work in terms of determining the site and going through the environmental work and the studies and getting the permits in place and building the projects is the same as past procurements in British Columbia. What's different this time is both the requirement and the RFP to have Indigenous equity, and the province has also passed in the previous couple of years the Declaration on the Rights of Indigenous Peoples Act, which heightens the involvement and governance aspect of nations with moving through these processes. So, it's a little bit different than it's been in the past, but as we mentioned earlier, Innergex has been active in the province for two decades, actively evolving how we work along with the legislative changes, and we feel comfortable and well positioned for this coming RFP.

Nick Boychuk — Analyst, Cormark Securities

Got it. Makes sense. Thank you.

Just generally, Michel, what should we be expecting from the early-stage development pipeline? It's a little bit unclear looking at the MD&A verbiage to understand which projects are, say, undefined versus low to mid probability of reaching operation. Curious how we should be thinking about the probability of projects moving through those stages of projects and development, and then projects under construction buckets? What general percentage do you think moves forward?

Michel Letellier — President and Chief Executive Officer

That’s a good question. On the other hand, it's even difficult for us to say. In Quebec we have way more than 1000 megawatts, way more than 1000 megawatts of possibilities in Quebec. I would say that most of them are potential to bid, but like I said, I think that Hydro-Quebec will be directing us towards some areas where they want to have interconnection. This is going to be probably one of the big drivers to know how many of those megawatts we can bid in the next RFP.

But I guess that the early stage is important in terms of us being flexible. It doesn’t necessarily—it’s hard to give a percentage of those but at the end of the day we're making sure that we will have enough projects to have a very good chance to succeed to have our 400 megawatt of projects per year. It doesn't really matter how many we have in early stage. What is important for us is making sure that out of all these possibilities, we find the project that are going to fit the best in terms of competitiveness, access to the grid, and profitability for us.

Nick Boychuk — Analyst, Cormark Securities

Got it. Thank you.

Michel Letellier:

All right. Thank you.

Operator

Your next question comes from John Mould from TD Cowen. Please go ahead.

John Mould — Analyst, TD Cowen

Hi. Good morning everyone. Maybe just starting, going back to the Quebec market. There has been talk about direct corporate contracting in Quebec. Michel, could you maybe provide some insight into how you're expecting that process to unfold and whether it could create a second stream of opportunities in the province for Innergex?

Michel Letellier — President and Chief Executive Officer

Well, it is very interesting to have that concept. We'll have more colour on this with the new law that is supposed to be tabled before the legislation and it might drag early fall. Obviously, we would welcome the possibility of having more flexibility and more (inaudible), it's all good for us. We're a little bit sceptical on the ability of a customer to have 24/7 hour capacity delivery with only renewable energy. We will have to have some kind of an agreement with Hydro-Quebec to either take the surplus of energy or supply some capacity component for customers. I don't think that the IPP or customer can live without having some kind of an agreement with Hydro-Quebec.

I think it's going to provide more flexibility. Perhaps some corporation will want to take a little bit more risk in the development or even invest in transmission lines with private sector that would enable investment afterwards and interconnection to the grid. I think you'll have to go through some agreement anyway with Hydro-Quebec in order to maximize the flexibility.

Remember that even if we are providing good quality project, it's still intermittent energy and customer depends on what type of a product that they want to produce. Most of them need firm energy, so remember that's what we're doing in Chile. We are perfectly set up to serve 24/7 because we have a portfolio of assets. In Quebec, it would be difficult to have a portfolio of assets into a same area.

We'll know a little bit before because Chile is providing a fairly cheap access to the grid, so you can move your electrons from one place to the other. It's not necessarily the case here in Quebec, and we would be looking forward having more colour on what would be the cost to wheel electricity around the province in order to serve a customer.

I think there's a lot of press and talk about this possibility. But again, I think that these will be done in conjuncture with Hydro-Quebec to some degree.

John Mould — Analyst, TD Cowen

That’s very interesting. Thanks a lot for that.

Maybe Jean, just a couple of clarifications on the guidance. I know there are a number of factors that go into those figures just beyond generation. You assume you're meeting LTA, but I guess you're 4% below in Q1. Does that imply you need to catch up a bit on generation to hit the midpoint of your guidance? On BC specifically, obviously, it was a really strong performance from those assets. I'm just wondering what you can tell us about how Q2 has been unfolding, just given that the snowpack still looks quite low at this point versus an ordinary year.

Jean Trudel — Chief Financial Officer

Maybe I'll tackle this one. We reaffirmed our guidance. We're quite confident that we'll meet the guidance, both in terms of EBITDA and free cash flow per share. The 4% lower production is not the only thing making up our EBITDA and revenues. In this case, for example, this quarter, pricing we produced a lot more in BC, of course, where prices are much more divided and the underperformance of some of our assets were in areas where pricing is actually much lower on average. There are several factors that go into the making of the year, so we're quite confident that we'll meet our expectations.

In terms of snow pack, it's true that we've had a great quarter, no doubt about it. You're right about the snowpack level on average is lower than the mean, but if you go to elevated areas—and we have some of our facilities like Upper Lillooet, for example, (inaudible), elevated areas, the snowpack is actually quite good. Snowpack is not the only factor as well. It really depends how the snow melt will come through this freshet season, and that's going to be an important factor of generation and also, of course, rainfalls.

It's still early to tell in the quarter. April was a slow start in BC. It was colder as well. We'll see the months as they unfold if the quarter in BC meets expectation or not. We count also on the diversification of all our 85 assets, 87 assets where we like to sometimes make up for a segment that would be underperforming versus another one that would be overperforming.

At the moment, I rely on LTA. I think we've adjusted our LTA. We've embedded that in our guidance, and so we're comfortable with reaffirming today the guidance.

John Mould — Analyst, TD Cowen

Thanks for that. Those are all my questions. Appreciate all that colour.

Michel Letellier — President and Chief Executive Officer

Thanks, John.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star, one.

Your next question comes from Mark Jarvi from CIBC Capital Markets. Please go ahead.

Naji Baydoun — Director, Investor Relations

Hi Mark.

Michel Letellier — President and Chief Executive Officer

Hi Mark.

Operator

Mark, your line is now open.

Mark Jarvi — Analyst, CIBC Capital Markets

Can you hear me now or am I on mute?

Michel Letellier — President and Chief Executive Officer

Yes. You’re okay.

Mark Jarvi — Analyst, CIBC Capital Markets

Sorry about that. Just on the bilateral and corporate PPAs in Quebec, are you inferring Michel, you can't do like a virtual PPA option. That wouldn't be something they’d consider?

Michel Letellier — President and Chief Executive Officer

Virtual PPA in Quebec. Well, that's a problem. For the time being, we're not allowed to do this. I will depend on how free we are to move the electrons in Quebec. This is something that we don't know yet in terms of new legislation. Like I said, it's supposed to be tabled late June just before the sessions end. So we're going to wait to see what's in it.

Minister Fitzgibbon is the one leading that file. But like I said, for us to be able to wheel energy in Quebec, the customer would have to have some kind of an agreement with a portfolio of assets in order to support it 24/7 or have a peaking facility. We can certainly help with batteries and what have you.

My personal view is that this might evolve, might create some opportunity where a customer can be willing to develop a transmission line where Hydro-Quebec would interconnect down the road. I don't see a project of size without some kind of agreement with Hydro-Quebec to exchange energy.

Mark Jarvi — Analyst, CIBC Capital Markets

Right. Then another question for me. Just what's your views right now on Curtis Palmer? The contract comes up, I think 2027. Are there any discussions started now? How do you feel about that market in terms of recontracting with a view maybe just to go merchant for the time being once the contract expires?

Michel Letellier — President and Chief Executive Officer

Well, as you know, we're a partner with Hydro-Quebec. Hydro-Quebec has the ability to trade in this area. But there's obviously other players that we're reaching out to understand what is the type of market, what's the tenure, what is the best strategy? We're discussing with our partner Hydro-Quebec back on this.

Can we stay floating for a while? It could be also a strategy if we think that the price of electricity is still going up. But obviously, from the acquisition time, we have seen a very good improvement on pricing signal in that area, for sure.

Mark Jarvi — Analyst, CIBC Capital Markets

Are you getting any inbounds from counterparties?

Michel Letellier — President and Chief Executive Officer

Sure. First of all, we have our shareholders; the Hydro-Quebec is partnered with us. So we're discussing, as you know, they have a big trading desk. They know the market. There's maybe some other guys that might be a little bit more hungry for those megawatts. We'll test the market. We still have about 1.5 years to figure this out. And obviously, we want to extract the full value of that project.

Mark Jarvi — Analyst, CIBC Capital Markets

Okay. One question for Jean. You mentioned asset recycling. Motivation for that would just be portfolio management and just which assets you want to own, or is there some consideration still around funding and liquidity around asset sales?

Jean Trudel — Chief Financial Officer

I think we need to look at the overall picture. When we think about asset recycling, the way I see it is that we'd like to always have in front of us at least $0.5 billion of availability and liquidity in order to move our project forward. We need to have also in mind some guardrails that we are thinking of in terms of balance sheet management. We need to consider all these factors. Also, as you said, upgrading our portfolio, that's always an important thing. Derisking, I guess, some part of the portfolio, upgrading it. And the liquidity.

Obviously, taking all these things into consideration, we're looking at some of the assets and trying to make the best out of it and to recycle in that sense. We're trying to always keep our self-funding approach. As we move forward and as we see the gains that we get out of the RFPs, we'll refine always that strategy to self-fund as much as possible our future operations.

Mark Jarvi — Analyst, CIBC Capital Markets

All right. Sounds good. Thanks for the time today.

Michel Letellier — President and Chief Executive Officer

Okay.

Jean Trudel — Chief Financial Officer

Thank you.

Operator

There are no further questions at this time. I will turn the call back over to Naji for closing remarks.

Naji Baydoun — Director, Investor Relations

Thank you for joining us today, and thank you for your interest in Innergex. We look forward to updating you on our continued progress next quarter. Thank you.

Michel Letellier — President and Chief Executive Officer

Thank you everyone.

Jean Trudel — Chief Financial Officer

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you.