

Innergex Énergie Renouvelable Inc.

Second 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 Second Quarter Conference Call and Webcast.

Bienvenue à la conférence téléphonique et la webdiffusion des résultats du deuxième trimestre de l'exercice 2024 d'Innergex Énergie Renouvelable.

At this time, all participants on the phone and Internet are in a listen-only mode. Following the presentation, we'll conduct a question-and-answer session for analysts and institutional investors. 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 would now like to turn the conference over to Naji Baydoun, Director, Investor Relations. Please go ahead.

Naji Baydoun — Director, Investor Relations, Innergex Énergie Renouvelable Inc.

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 at 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 highlights for the quarter, growth and development updates, our Q2 2024 results and highlights, and our 2024 guidance and financial outlook.

Our speakers will be Michel Letellier, President and Chief Executive Officer, and Jean Trudel, Chief Financial Officer.

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

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Thank you, Naji.

Good morning, everybody. Thank you for joining us.

We had a little bit of a weak quarter regarding the resources, but we are concentrating ourselves in what we can control, and on that, I'm happy to report that our team did a job in maintaining the availability of the assets over 96 percent on a portfolio basis. Thanks to them. This is what we can do, making sure that we can produce what comes to us, and resources. As we always said, we want to make sure that we have a diversified portfolio both in term of geography and technology, and our effort of development is making sure that we are growing that diversification.

In terms of maintaining our focus on discipline and sustaining growth strategy, as you all know, we're working hard on building our prospective portfolio and entering RFPs, but we will stay focused and disciplined in the pricing. As an example, we did participate in the last Chilean disco (phon) RFP. We didn't win anything. There's one big winner there that went, I think, too aggressive in the pricing, anyway, below what we had won recently in the Codelco RFP. We will be maintaining our discipline, and we have plenty of opportunity of RFP. We are building our portfolio of prospective to give us some flexibility in that case. We'll remain disciplined in those great opportunities that we are seeing.

Also, very focused on continuing executing on our priorities. A good example is the closing of the transaction in Texas. Jean is going to give you a little bit more detail about it, but very happy to have de-risked the portfolio in Texas. As you all know, we had the power hedge there. Our last power hedge is now gone, pretty happy on this transaction. It's providing us more flexibility and enhance a little bit our liquidity. Good outcome on this one.

Next slide, recent achievement in terms of quarter. On the operation, very pleased to have commissioned the San Andrés best product in Chile. Also, in this world, it's good news to have been able to have about \$5 million under budget. This is how we like them, and obviously, we'll try to focus on this going forward. So far, the operation in Salvador and San Andrés in terms of (inaudible) is doing great. The battery are doing what they were supposed to do, and we're pleased with that investment in the operation of the batteries in Chile.

Development and construction, we are advancing very well on Boswell. We have now more than 60 turbine erected over 90. Very happy on the execution, even though it's kind of sad, because we had a lot of wind this spring that has slowed down a little bit the erection of turbines. But that gives you a good idea that if we would have been in operation in this area this summer or early spring, it would have contributed to the diversification. That's what I mean when we want to be more diversified in terms of geography and technology. It's a good segue towards saying that we want this project to be in service by the end of the year, and everything is working towards that goal.

Working hard also on Hale Kuawehi, a smaller project. Nonetheless, important for us to make sure that we put that in commissioning by the end of the year. It might be tight there, but we're getting very close to the commissioning of that project as well.

Working hard on the 182 megawatt of project and development. You know that some of those projects are already having some PPA. We're working hard to create value there and advancing these projects to make sure that they're becoming under construction in the next few months and quarters.

Two thousand twenty-four will be very busy in terms of RFP and PPAs. You all saw that we signed the 400 megawatt project in Québec. Both project Lotbinière and Peshu Napeu were signed. Great contract, thirty years. Remember, that these contract has also CPI built into them, we like these type of contract.

Happy also to have re-extended or renegotiated the 25 years PPA for our Portneuf hydro facility with Hydro-Québec with full CPI. That's a good segue for Jean is going to give you some colour on our initiative to refinance these three hydro facilities.

We also have, as we said, portfolio management. We just talked about Texas. I think it's a good example of what we can do to improve our portfolio, both in providing more flexibility in financing, and also de-risking, when it's possible, our portfolio to enhance the total portfolio risk profile.

Next slide, the visible growth on our secure (phon) project, we just saw that operating asset has gone up by 35 megawatts. This has now been in operation. Working, as we just said, on Boswell and Hale Kuawehi for the 390 megawatt of project under construction to be done by the end of the year, and we have the high visibility project of 882 megawatt.

I'd like to, perhaps, stress the Palomino in this. This is a 200 megawatt solar project, if you remember, in Ohio. We are still waiting for the final interconnection study and timing, but this apparently is getting to the end. We hope to have it by the end of September, beginning of October, so that we can now secure all the schedule for the contractor and the supply agreement. Happy to report that PGM capacity option (phon) was much higher than we had anticipated, and the early discussion that we are having with the offtake for Palomino are very, very positive. The price for electricity in PGM is going up

for renewable energy, that looks very promising for Palomino. We cannot wait to have this final study end and being able to go forward with Palomino.

MU2 is entering in the last negotiation with the contractor and the supplier. This project should be going forward for 2026 with our partner, the Mi'gmaq community of the Gaspé Peninsula.

Also just mentioned that we have signed both Peshu Napeu and Lotbinière project in Québec, and working hard, of course, to bid project in the next RFP we're getting to talk about it.

Next slide, we have a large and diversified portfolio of prospective project. As I said, we want to make sure that this portfolio is giving us flexibility and optionality for us to bid in different market. We want to bid and be prepared to participate in RFP in all our market. The idea is to have optionality to make sure that we have the luxury to select the project we want to bid and make sure that these bid will be profitable for the future.

Give you a little bit of, I guess, just, I would say, a comment on the more than 9,000 gigawatt of project we have on development stage. When we say early, mid, and advanced, that doesn't mean that early project cannot be bid in RFP, especially in Canada. Early project, just a reminder, we all have—when we enter these project in this category, we all have land secured, and usually, also some good visibility on the resources. That doesn't mean that we cannot have an early project being bid in Canada. As an example, could be Québec, could be also BC. We have a lot of project in Canada, particularly to be able to use for bidding in Canada.

We're happy also to say that Canada, as we mentioned, is prone, or, I guess, that we see this possibility to see the Canadian opportunity in the next decade to almost double the size of renewable energy. We will be very focused on all the market in Canada, except Alberta, for you know that we have some restriction in our strategy in Alberta, but for the rest of Canada, we will be very busy. Ontario will be a great market as well. We are improving and getting ready more and more on ground to make sure that we have a lot of prospective project also in all the different market in Canada.

I guess now I will pass to Jean presentation on the operating highlights.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

All right. Thank you, Michel, and good morning, everyone.

Starting with the operational highlights for the quarter, production in the quarter was 91 percent of LTA, similar to results in Q2 2023. In the quarter, generation was primarily impacted by below average wind regimes in most of our markets, as well as lower irradiance and economic curtailment in the U.S, and Chile, and lower water flows in BC. These elements were partially offset by strong hydro generation in our Québec and Chilean portfolios, as well as higher wind productions in the U.S, and Chile.

As Michel mentioned, we remain extremely focused on controllable factors such as maintaining a high asset availability. To this effect, we are pleased with the 96 percent overall asset availability in the quarter. We remain committed to our portfolio diversification strategy, which we believe will help us mitigate overall resource risk over time.

Looking at our financial performance in the quarter, we reported Adjusted EBITDA proportionate of \$184 million, approximately 8 percent lower year-over-year. Although generation at 91 percent of LTA was similar to Q2 2023 performance, our financial results were impacted by generation mix, as some of our higher-priced portfolios, such as the Québec and France wind assets and the BC hydro assets, generated lower production year-over-year.

Our solar portfolio was also impacted by lower irradiance and curtailments in Chile and the U.S. This was partially offset by better generation at our Chilean and Québec hydro facilities, which were above LTA for the quarter, as well as improved production from our U.S. and Chilean wind portfolios.

Our corporate expenses have increased year-over-year, mainly due to our increased investment in greenfield activities, which we believe will translate into profitable growth over time. We remain focused on maintaining cost discipline within the overall business, and will prudently deploy our resources to generate accretive investments.

Free cash flow during the quarter was \$51.8 million or \$0.26 per share compared to \$0.09 per share in Q2 2023. The main drivers of the year-over-year change in free cash flow are the gain on disposition of non-controlling interest from the Texas transaction, as well as lower finance costs paid, mostly due to the timing of debt payments, partially offset by the same items that impacted EBITDA year-over-year.

As of the end of Q2, the total debt amounted to \$6.4 billion, down from \$6.5 billion in Q1 2024. The quarter-over-quarter decrease is primarily due to the de-leveraging of our Texas assets concurrent with the sale of minority interest in our portfolio in the States. Overall, our debt profile remains highly

fixed or hedged, with minimal overall exposure to floating rates. With most of our debt being at the project level, we will continue to prioritize nonrecourse debts as the primary funding tool for new project development.

We remain comfortable with our self amortizing project debt structure, with all of our existing project debt expected to be fully paid off in line with our remaining PPA terms. This is well below our estimated remaining portfolio use for life, as you know, it's providing Innergex with important refinancing and re-contracting optionality.

From a liquidity standpoint, we continue to maintain adequate levels of available capital to fund our growth initiatives. In Q2 2024, we repurchased \$2.5 million worth of shares under our NCIB. Going forward, the magnitude and timing of share buybacks will remain dependent on several key variables, including our funding needs, the future success on portfolio management initiatives, and the trading level of our shares.

Looking ahead of the rest of the year, we remain focused on executing on additional portfolio management activities to further strengthen our financial flexibility and increase liquidity. As mentioned, we recently signed the 25-year full inflation index PPA for the Portneuf hydro portfolio in Québec, and with this important milestone now achieved, we are advancing with our second hydro refinancing initiative, and we expect to complete this by year end with a target to obtain an incremental liquidity of around \$80 million.

We are also encouraged about the recent passing of legislation in Canada that implements a new 30 percent ITC, or investment tax credit, for clean power projects. We believe this program will provide

significant benefits for renewable energy development, helping to accelerate the deployment of clean energy power capacity in Canada.

As for our existing projects, we believe that our three Québec wind projects under development; namely MU2, Lotbinière, and Peshu Napeu, all stand to benefit from this program. This represents a total of 502 megawatts of capacity that could see upside from the ITC program, as these projects were all bid without this benefit.

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 CAPEX outlook. We remain committed to managing our corporate leverage and to our self-funded organic growth business model.

Given our performance so far this year and the outlook for the second half of 2024, we are today reaffirming our full year 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 per share.

Despite production in Q2 being below our expectations, we remain confident in our ability to achieve our guidance, and we'll continue to update the market on how we are tracking each quarter. As new projects come online in 2024, we expect to deliver more growth in 2025. Further success and development will also be a key driver of our longer-term success.

Will now give the floor back to Michel for an update on our 2024 corporate priorities and for closing remarks.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Thank you, Jean.

Of course, we will be focusing on construction activities. The two last projects, as I mentioned, is paramount for us to make sure that our team are delivering these projects on budget and on timing. Working hard on this. Development is definitely a big portion of our activities in 2024 and in the future. We said that we wanted to bid at least 500 megawatt in upcoming RFPs, and we want to win 400 megawatts. That ratio seems to be high, but, on the other hand, I think that we wanted to be just a little bit conservative in the numbers of megawatt we're going to bid.

We never like to say how many bids we put in particular RFPs in terms of—we're a little bit cautious of competition, but we already bid two RFPs in Chile, as you know. We won on Codelco, roughly 125 megawatts. We have bid also in Saskatchewan in solar. Our intention is to be a big participant in the upcoming RFP for BC, and obviously, always on the lookout to participate in Québec. I think that Québec this year will be (inaudible) to have a new RFP, given the fact that Hydro-Québec has also talked about being a very proactive developer on big project.

I think that we're very well-positioned throughout our experience and the knowledge of the market in Québec; very good experience, as you all know, with First Nation participation, and we think that all these things will be considered in being potential partner with Hydro-Québec and First Nation for

these mega projects. I think that we're going to be there in terms of a potential partner for all these big projects in Québec, and we see that as a good opportunity. I think that Hydro-Québec, by demonstrating their willingness to have these big projects, are committed to have more win in Québec portfolio, and are willing also to interconnect these big megaprojects on high-voltage line that were not available in the past. I think that it's a commitment of Hydro-Québec to make sure that there will be more win in Québec, and it's all good for us. It makes more opportunity for us in the future for Québec.

I mentioned also that the remaining part of Canada is, for us, a great focus. We want to be also participating in all the market that we have. We have the U.S. We have France. We have Chile, but we have a little bit of a focus on Canada, because, as we all mentioned, they're a big opportunity in RFP and we think we can be competitive there.

Financing, as Jean is saying, we're advancing well. We're positioning ourself to refinance some hydro. The transaction in Texas is also providing some flexibility and some de-risking of the portfolio. We're striving to enhance our portfolio profile both in terms of flexibility, risk and reward metrics.

Just maybe as a little bit of an editorial this morning, I was reading the (inaudible) this morning and very interesting article about July 2024 was basically breaking thirteenth month of record-breaking record in heat the last 13 months, and July came and broke that record, just being shy of July 2023. That makes me reflect a little bit on our mission, which is building a better world with renewable energy and helping de-carbonizing the economy in terms of helping the planet, making sure that we are providing some good value for our shareholders, but always respecting the 3P; the planet, the people, and sharing the prosperity, both with our shareholders and our stakeholders.

We are striving at Innergex to make sure that we're positioning ourself for that growth and making sure that we'll be part of the solution to de-carbonize the economy. I think that the demand for renewable energy is growing. I think that eventually all the government will be focusing on having more and more opportunity to have more renewable energy in our different markets, so very, very positive toward our future.

On this, I will open the floor for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, if you have a question, please press the star followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order that they are received. Please make sure to lift your handset if you are using a speakerphone before pressing any keys.

Your first question comes from Sean Steuart from TD Cowen. Please go ahead.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Hello, Sean.

Sean Steuart – Analyst, TD Cowen

Thanks. Good morning, everyone. A few questions. The Portneuf re-contracting, we couldn't find it on the Hydro-Québec site. Can you give us a sense of price terms for the new contracts?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

You mean the price? They're not going to provide the price of these renewal of a contract, especially in the timing of RFP, but it's in line with what we have already shown in our last three years. If you remember, we had that contract ending in 2021, and we have been applying that rate in the (inaudible). What has been changed is the amount of megawatt. We have been able to tweak our equipment to increase the capacity by about 10 percent more capacity on the output. We will be receiving a little bit more production out of this. As Jean is mentioning, these contracts have been part of the renewal of a portfolio that were put back into the early 1990, and they are now with 100 percent of CPI also indexed.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

It's 25 years.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

It's 25 years, yes.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

The prosperity also, Sean, is that the Portneuf has been diverted, so we received revenue virtual payment from Hydro- Québec for 15 percent, 20 percent of the water that should have run into that river. It's particular for that facility, it brings a lot of stability to that watershed, I guess, to that revenue line.

Sean Steuart – Analyst, TD Cowen

Okay. Thanks for that context. You gave us an update on Palomino interconnection. Can you give us a sense for the rest of your U.S. prospective pipeline behind Palomino. How things sit in interconnection queues for other projects you would hope to advance?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

That's probably the biggest challenge we are facing in the U.S. It's tough to interconnect in the U.S. Working hard on finding some area where we can accelerate these interconnections. We're working, as an example, on Wautoma, which is a 400 megawatt in the northwest side. We have bid that project in a few places, trying to find ways where it would be more competitive to interconnect, but the U.S. is always a little bit of a big question mark on interconnection. Mind you that in the U.S., we're working on big projects, and in our long term—in our forecast or goals in order to win a megawatt in the U.S., we don't need that many projects to meet the criteria that we need to build out our growth portfolio. We're selective. We don't want to make crazy assumption or being too aggressive in the U.S. We're waiting, we're patient. We're building our flexibility, optionality.

We have also some opportunity in Wyoming close to Boswell to expand, and we have also (inaudible) project, which is in a range of 300 megawatts along the Boswell interconnection line. We have

a few big projects working also in the Midwest to build out some portfolio as well. Potentially also looking into smaller projects in the U.S. where we could probably interconnect on distribution voltage that could somehow free it up and be quicker to interconnect. But interconnection in the U.S. is something that we're struggling. I think everybody is struggling a little bit to find the best way to interconnect in the U.S.

Sean Steuart – Analyst, TD Cowen

Thanks for that. That's all I had.

Operator

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

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Hello, Rupert.

Rupert Merer – Analyst, National Bank

Hello. Good morning. I'd like to start with Boswell. You mentioned that the construction is on track. Can you talk about the milestones that remain to complete that project? I know there's some pending transmission work that needs to be done. How much visibility do you have on getting that done by the end of the year? What's your confidence level that you'll hit COD by year-end?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Getting better, Rupert. There's one substation that has to be finalized by PacifiCorp. It's not us who's building it, it's a little bit more difficult for us to accelerate, but it was supposed to be done by July. Now, the latest update that we have, and apparently, they're very confident that they'll be able to deliver, is very early October. We, if you remember, said that in order to be more proactive in our ability to commission the wind farm, we have ordered some equipment bank of resistant to be able to commission with generator and this equipment, the wind turbine, so that we would be not slowed down in our commissioning process. Everything under our control we're putting forward to make sure that we will be in service by December on Boswell. We also have made all the provision with our contractor to meet the how do we say, the payment?

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

(Inaudible).

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Thank you. We have paid a little bit of extra to our supplier to make sure that we would be meeting this if ever we go beyond 2024 to make sure that we are fully compatible with the PTC requirement. We're very positive. We think we'll get there as long as the PacifiCorp gets us the interconnection work so that we can interconnect, but, from our part, we're doing everything under control to be there and will be there in terms of being ready to interconnect.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

By year-end.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

By year-end. Yes.

Rupert Merer – Analyst, National Bank

All right, great, and then on the Portneuf, you gave us a little colour on that process. How does that inform your view—the re-contracting of Portneuf, how does that inform your view on the upcoming negotiations you'll have for re-contracting your wind farms in Québec over the next few years, and what's your view on the next stage of the life of those wind farms? Will it be re-contracting for a number of years, or is there potential for repowering in those projects? Any thoughts you have on that process?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Yes. I don't want to get too much detail, because we are starting negotiating with Hydro-Québec in order to find the better solution. If Innergex would have its own way, I would prefer to be able to have a long-term renegotiation on this facility. Of course, we can have five years or 10 years' extension on this equipment, but I would rather, if it's possible, to have a longer 40 years PPA type so that we can plan the decommissioning of some of the old equipment will be with the repowering of these wind farms, and hopefully, that would be almost seamless in terms of production.

I think that Hydro-Québec wants the long-term view also. You all heard them saying that they need more power in Québec. I think that these projects are already embedded in the distribution system and the transportation system. I'm hopeful that we'll be finding a way to have this transition and, in a position, to have a long-term view on all these projects. I'm very positive that Hydro-Québec needs this power. It's

always a negotiation in terms of pricing, but they need that power. Hydro-Québec, if you heard, is very concerned in making sure that they have enough supply to meet all the industrial and local demand. Since this project has been in operation for the last 20 years, I think that we'll find a way to create value for everybody and have a win-win.

Rupert Merer – Analyst, National Bank

If you do get to a point where you have a longer-term agreement like 40 years that contemplates some repowering, is there an opportunity to expand the capacity as well to grow the output?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Yes. The capacity will always be limited also on the interconnection capability in the Gaspé Peninsula, but we were pleased to hear about the Minister of Energy has said that they were positive or supportive to have a new transmission line to help get more megawatt out of the eastern part of Québec, the Gaspé Peninsula and (inaudible). We think that this would help us in the future to have more power getting out of the Gaspé Peninsula. Remember that that area, the east of Québec, is probably one of the windiest area and produce very good wind power. I think that, over time, it might not be tomorrow, but we're anticipating a new upgrade on the transmission by 2032, 2033.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Rupert, also, just the new machines themselves with the same wind regime would produce a 25 percent to 30 percent more energy. It's energy that's quite attractive also for Hydro-Québec.

Rupert Merer – Analyst, National Bank

Great. I'll leave it there. Thanks for the colour.

Operator

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

Nelson Ng – Analyst, RBC Capital Markets

Great. Thanks, in the morning, everyone. First question just relates to funding. I know in the past you guys had a roughly \$80 million tranche of hydro debt that you were just waiting to pull the trigger on and waiting for rates to go down further. With the, I guess, re-contracting of Saint-Paulin, could you easily add that into those group of assets and increase the size of your refinancing?

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

What we mentioned is the \$80 million target was especially on those three Paulin (phon) facilities that we were waiting for the PPA. Now that we have the PPA in place, I'm keeping my target at \$80 million, but we hope to beat it. Obviously, rates going down helps provide more capacity because we can put more leverage, but also, the quality of the contract is good. As Michel mentioned, we upgraded our equipment so that we have a bit more capacity so we can produce a bit more energy. All this translates into more revenue, which allows for greater financing conditions. I'm hopeful we'll do better. We should conclude this by the end of the year. We'll have more for you in the coming quarters.

Nelson Ng – Analyst, RBC Capital Markets

Okay, and then just staying on the financing topic, you have some debt maturities maturing next year. I think your converts, I think \$148 million or so, but you also have \$150 million of unsecured sub debt due in February. What's your plan in terms of, I guess, financing or refinancing or repaying?

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Yes, we have, as you said, this \$150 million sub debt that comes first. It's not a big puzzle. We could just repay this sub debt with the revolving capacity that we have in the meantime, so there's no urgency. We started the discussions with lenders to see what are the options to refinance the sub debt at the corporate level, that's ongoing. Then for the converts, we have two converts. We have two converts coming one after the other, so we started also—it's a bit early, but we started to kick off some discussions to get a better understanding of the market conditions for renewing converts. It's a bit early, again, so we'll get to that probably closer earlier in 2025 to see how we go about with these two converts.

Nelson Ng — Analyst, RBC Capital Markets

Okay, and then just switching to Texas. In Texas, now that you have a bit more merchant exposure, from your perspective, is the plan to keep the merchants, or do you have an opportunity to look for PPA-like contracts for those assets?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

I think that Texas, out of every place, is a place if you have an asset that don't have debt is probably the best way is to play the merchant. We have now our partners. We have only 50 percent of Griffin and Phoebe. Remember also that our power hedge was limiting our ability to have the upside, but was limited

in the downside. We're very happy to have got rid of that power hedge. Never again at Innergex, we would end up having these type of contract. We're happy for the time being to see how the market is going. I was surprised to read about the future potential demand in ERCOT. It's just crazy. We've seen some data centre being implemented in the Houston area, and some reports are saying that in the next 10 years, ERCOT can double from 75,000 megawatt demand to something around 150. I think that we're happy to be there and have the ability to take advantage of the volatility.

We have no basis risk on those merchant neither. Basis risk is a big issue also in ERCOT. We don't have basis risk anymore. For the time being, I think we're happy with what we have in Texas. Never say never if we have a great opportunity to sign a PPE in the future, but it would be as produced and no basis exposure. If ever we have those opportunity, we might consider it, but we don't want to have this fixed obligation and we don't want to have basis risk exposure in the future.

Nelson Ng – Analyst, RBC Capital Markets

Great. Thanks, just one last question. In terms of the BC Hydro assets, I know during the quarter, I think O&M costs were higher year-over-year, and I think—can you just give a bit more colour in terms of whether the higher O&M costs are one time in nature, or do you expect...

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

The biggest one is (inaudible). I think that we're trying to find the best solution for having our turbine being more erosion-friendly, and we're working also on potential solution to reduce the erosion or the sand to get into the tunnel. This is a little bit of a challenge. There's a lot of erosion that somehow,

somewhere we were hoping to get rid of, but there's all kinds of metal surfacing that we can do on the turbine. The team has been trying to find the best scenario, and, in this case, instead of capitalizing one unit last year or one set of unit, we expense it. That's why you're seeing a little bit of a peak on this CapEx for BC, but, in general, we don't see a big difference. It's only (inaudible) that has a little bit more challenged on erosion, and we're trying to find a long-term fix for it.

Nelson Ng – Analyst, RBC Capital Markets

Okay. Thanks. I'll leave it there.

Operator

Your next question comes from Rob Hope from Scotiabank. Please go ahead.

Robert Hope – Analyst, Scotia Bank

Good morning, everyone. I wanted to circle back on your commentary on the Hydro-Québec renewed focus on development. That change in their strategy was announced about two months ago. How have you interacted with Hydro-Québec, and have there been any initial discussions on how you could support these 1,000-megawatt mega projects, and how would you envision supporting them? Would that be potentially vending in land from your development pipeline or supporting the construction process?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Yes. I think that the public announcement was more focused on Hydro-Québec being the initial developer or (French spoken) with the First Nation and local community. I think that they're trying to make sure that they have a good sense of the social acceptability of these projects. They want to make sure that they are leading the discussion with the communities, and making sure also that they can feel comfortable that these big projects could be interconnected, because if they start to work on the big substation of the 735-kV line, they want to make sure that the project will happen, and the size of the project will be sufficient in order to sustain and amortize the expense to build a new substation on these big voltage line. I understand that they will be discussing with the communities and local stakeholder to make sure that they understand the lay of the land, and they will be then, together with their partner, go out and have some kind of an RFP to secure an IPP like us to help them develop.

Criteria, from what I gather, will be based also on the knowledge of the land, the ability to build, experience on building in Québec and with First Nation. All these criteria fits very well in our ability, and that's why I think that we'll be a serious potential partner with these mega project. I cannot guarantee that we'll be there, but we have known the land. We have some resource data on most of the project that they have already spoken about. We'll definitely be a very, very important and serious contender to be a partner. They're talking about looking for 30 percent, 33 percent partners in these mega transaction. Very, very important for us to be talking with the local community, making sure that we are a good partner also for First Nation, not only for Hydro-Québec, and we have opened discussion with the different community in these areas.

Robert Hope – Analyst, Scotia Bank

Appreciate that, and then on another topic, just in terms of portfolio management, that was highlighted as a priority for 2024. Is that just referring to the hydro op financings, or, as you're taking a look at either your development pipeline or your operating assets, do you see opportunities to further service value?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

The market in general is not that great. I think it's improving. Obviously, we've seen some good numbers on inflation. We've seen some volatility on interest rate going up and down lately, but I think that, in general, the cost of capital for infrastructure is going down in general. I think that if things are going the same way, we are hopeful that interest rate will get down. I think that this is a good timing for us to start thinking is there something that we can partner with people? Always open to the idea to lower our cost of capital, giving us a little bit more flexibility, but, of course, we're mindful that it has to create value.

We're not in a rush. I think that's what the dividend reallocation has provided us some flexibility. Of course, when you have a little bit more time to study and to take advantage of different opportunity, it creates, in my mind, more value. We're not in a rush to do something, this is what is important, but we said that the U.S., when we have 100 percent of a project in the U.S. either on development, late development, or early COD, we have always been open to the idea of creating value. Hawaii is not a secret that we only have one project in Hawaii. We want to make sure that we are getting focused to put it on COD, but if there's an opportunity to create value for us in that particular project in Hawaii, we would certainly be open to the idea.

Robert Hope – Analyst, Scotia Bank

Thank you.

Operator

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

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Hello, Nick.

Nicholas Boychuk – Analyst, Cormark Securities

Thanks. Good morning, guys. Hey. Good morning. Coming back to the BC opportunity, can you guys walk us through some of the projects that you are looking to develop, the steps you're taking now to get them sort of RFP ready, and timelines for when we should certainly expect to hear some updates on that specific area?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

I'm sorry to disappoint you, but we never comment on projects that we're going to put right into the RFP. What I can say is that we'll have a large volume of project that we will be ready to put by September 15, but I hate to give too much information. It's an RFP and there's a lot of competition, for us, we're very encouraged with the result that we have. We already had a lot of interconnection study coming in, and we're positive. We're happy with what we received in many cases. All the team will be ready to

have the project ready to be submitted, but I'm sorry. It's not that I don't want to give you some good potential for the future, but it's important for us to keep that information a little bit of secret before we bid.

Nicholas Boychuk – Analyst, Cormark Securities

Okay. If we're thinking about the growth of that portfolio or any other areas within Canada, you mentioned that, obviously, some of the project development costs, operational costs are going to rise a little bit. Is the current run rate something that we should be expecting going forward? Do you have to add any people, any capabilities, any teams throughout the country in order to execute on that growth?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

I think we have good—as you know, we have a good team in Vancouver. I wouldn't say head office, but it's definitely an important office in Vancouver. We didn't have to beef up too much that office for the benefit of that bid, but, obviously, if we win projects—those projects, if you remember, the earliest you could deliver is 2028. If we win project, we might have to beef up a little bit the construction ability as we grow, but early stage and early development environmental studies and relationship with communities, we have a strong base in BC that we have taken advantage of.

Nicholas Boychuk – Analyst, Cormark Securities

Then, sorry, outside of B.C., can you comment on what you're expecting for prospective project expenses and other G&A costs as you try and organically expand the portfolio?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Sure. Saskatchewan is becoming more and more important for us. We've been bidding in Saskatchewan twice over the years, and now it's the third time. I think that we're getting to know quite a bit Saskatchewan. There are still a couple of thousand megawatts to be bid in the near future. Saskatchewan is becoming a good market for us. We have some rumors that Manitoba will be also an interesting market. These two provinces are getting more and more on our radar. So far, we don't have a regional office in these areas, but we may end up having a little bit more permanent people in those two provinces if we have a little bit more success.

The other big market I would say other than BC and Québec is Ontario. You heard me talking about Ontario a lot. We're putting a lot of effort in Ontario. We understand that wind in the South might not be that well received in terms of social acceptability. We're working hard on land and interconnection and getting with good relation with First Nation to develop the wind in the South, but there's still opportunity to do solar and battery project in the South. We think that Ontario is going to be a good market as well and we're strengthening our team in that area. Then New Brunswick, we're seeing a little bit of activities here and there, but I think that we can cover New Brunswick from Québec. We have a few folks that are working for us on a full-time basis in New Brunswick as well, but we're going to obviously beef up the construction ability as we're getting closer to the project that we have to deliver.

Nicholas Boychuk – Analyst, Cormark Securities

Okay. Understood. Thank you.

Operator

Your next question comes from Ben Pham from BMO. Please go ahead.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Hello, Ben.

Benjamin Pham — Analyst, BMO Capital Markets

Good morning. I had a question on Slide 9, you break up your development projects. Can you remind us what does it take to move a project from mid to advanced, and how often do you actually go through the process of redefining those buckets? I ask it from the perspective that one of your peers recently relooked at how to define advanced stage projects.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Yes, they were a little bit optimistic though. I'll let Jean...

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

It's a full process, full comprehensive process that we have. When we identify a project, we screen it, we have a screening committee to accept it as a prospective project. It needs to have a certain number of criteria at the forefront to be called a prospective project. For example, you need to have land rights or an access to land and interconnection capacity, and then it becomes a prospective project, and we build out the maturity table of each of our projects. We understand, obviously, very well all the steps that are

required to bring this project to NTP. We qualify each project from a maturity point of view, so that gives you an idea of the maturity, if it's early, mid, or advanced, but then we apply also a probability of success to become a project under development or to gain a PPA. In some instances, you have a project that's very well mature in terms of its development, but in a market where there's no RFP. For example, you could have a project that's quite advanced in terms of tests to be done, but with a low probability, so it would fall back into an early or a mid-stage. You could also have an early-stage project that is quickly bid into an RFP and skips the mid and advanced stage and goes straight to PUD, and the example for this is the two projects we had in Québec. We developed the project. They became prospective projects. We bid them in the RFP as early-stage projects, and we were awarded a PPA, they became a project under development. They came out of the prospective project buckets, if you want.

We apply, I guess, a sort of mathematic to it. We revise this every quarter, each project manager has its own development projects, or prospective projects, and they review this every quarter. When we issue the table in the MD&A, it's fresh. It has been freshly looked at every quarter, and that's how you see the evolution of the prospective projects from early to mid to advanced, and eventually, to the next stage, which is PUD and obviously, then, after that, under construction. It's a well thought-through process that is actually helping not only internally, but externally to explain where we're at to qualify the prospective nature of our business. Is that helpful?

Benjamin Pham – Analyst, BMO Capital Markets

Yes, it does. Can you also talk about did that weighted average probability, did that change post that 2021 boom in development, or have you always employed this method?

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

No, this method's changed. We started in Q2 2019, really. That's when we started to apply this methodology to internally, and then in the MD&A. I suppose it might have been a few quarters after that we started to bring this evolution to our MD&A.

Benjamin Pham – Analyst, BMO Capital Markets

Okay. Thank you very much.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

You're welcome.

Operator

Ladies and gentlemen, if there are any additional questions at this time, please press the star followed by the one. As a reminder, if you are using a speakerphone, please lift your handset before pressing any keys.

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

Mark Jarvi – Analyst, CIBC Capital Markets

Good morning. Thanks for fitting me in.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Hello, Mark.

Mark Jarvi – Analyst, CIBC Capital Markets

Hey. Good morning. On the investment tax credits here in Canada, can you clarify? In the MD&A, you had mentioned that you should get 100 percent for MU2. Can you clarify if that's 100 percent back to Innergex and what that would be. Then maybe going forward on the other projects, how you think about the ITCs? I assume you share that a lot with the off taker, but how that factors into the financing plan and upfront development financing costs.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Yes, on MU2, what we had is the confirmation that us and our partners would actually keep 100 percent of the ITC. That brings, I think it's about—trying to remember the number, but essentially, we would get 30 percent. It's about \$300 million of CapEx, and so roughly 90 percent, but you don't get all the eligible costs. There's a factoring in this, maybe it's a bit below \$90 million of ITC for both partners for MU2.

Then the other two projects for which we have won a PPA, we're not bid with the ITC, so it's still uncertain how much of it we would capture. Right now, we assume that it could be 100 percent of ITC coming towards Innergex and our partners. Again, if you want to use a rule of thumb at \$3 million a megawatt, these projects were 400 megawatts in total, it gives you an idea of how much ITC we could benefit from on our activity.

Mark Jarvi – Analyst, CIBC Capital Markets

It's a decent chunk of cash. Can you build that into your debt financing, construction financing, and get lenders to advance that and then pay them out after the receipt of that tax credit?

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Absolutely. That's what we're looking into now at this moment. It's going to certainly be part of our structure, our financing structures. But as you know, we get this ITC once we file the returns and we ascribe CapEx to the right class in our tax returns, the 43, class 43. Once you get that, you get the actual credit, and you need to be a COD as well. The time difference would be certainly something financeable.

Mark Jarvi – Analyst, CIBC Capital Markets

Okay, and then, Jean, you made some comments about the criteria for the buyback. One about was it the share price. Is that at a level right now where you see yourself potentially being active, given maybe you don't have a lot of big equity investment needs here? You've got some opportunities on portfolio optimization what with the debt financing in the Portneuf facilities. Could you put a bit more capital work on the buyback right now?

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

I'm trying to be very conservative here, because we've had below expectation results in the first two quarters, we need to manage carefully the liquidities, and we have a lot of growth ahead of us. At the same time, I'm confident that we have liquidity needs to fund all our growth prospects. That's the comment I wanted to make, and I said the same comment, I think in Q1, that we would act very carefully. We bought back \$2.4 million in this quarter, \$5 million in the first quarter. We'll see how the quarters go

and be potentially active. It's obviously very nice to have this tool and to be able to act on it, but I think one needs to be careful about it as well. That's what we'll do.

Mark Jarvi – Analyst, CIBC Capital Markets

Okay, makes sense, and with canceling the power hedge in Texas and just on the price dislocation congestion, is adding storage to one or more assets in Texas make sense at this point now given your merchant exposure?

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

It's very difficult market. We love Chile capacity payment. Remember that in Chile, you get to roughly \$7 per kilowatt per month. That would represent almost 45 percent of the total revenue you need to support your battery. In Texas, there's no capacity payment. There's potentially some auxiliary reward payment, but it's very complicated. You rely on high volatility, and it's hard to base a case on this in Texas. I know that there are some people that have the stomach to do it and put battery in Texas, but we don't like that type of risk reward in Texas. We prefer to have a better long-term capacity payment. We have looked at it, but we couldn't come to a financial structure that would support that type of investment in our cost. I'm not saying that others won't, but for us, don't like it that much.

Mark Jarvi – Analyst, CIBC Capital Markets

Understood. Okay. Thanks for the time today. Appreciate it.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Thank you.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Thank you, Mark.

Operator

Mr. Baydoun, there are no further questions at this time.

Naji Baydoun — Director, Investor Relations, Innergex Énergie Renouvelable Inc.

Thank you for joining us today and for your interest in Innergex, and we will look forward to updating you on our progress again next quarter. Thank you.

Michel Letellier — President and Chief Executive Officer, Innergex Énergie Renouvelable Inc.

Thank you so much.

Jean Trudel — Chief Financial Officer, Innergex Énergie Renouvelable Inc.

Thank you very much. Bye.

Operator

Ladies and gentlemen, you may now disconnect your lines. Thank you.

