

Innergex Énergie Renouvelable Inc. / Innergex Renewable Energy Inc.

Third Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Naji Baydoun

Innergex Énergie Renouvelable Inc. – Director, Investor Relations

Michel Letellier

Innergex Énergie Renouvelable Inc. – President and Chief Executive Officer

Jean Trudel

Innergex Énergie Renouvelable Inc. – Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Rupert Merer

National Bank Financial – Analyst

Nelson Ng

RBC Capital Markets – Analyst

Nick Boychuk

Cormark Securities – Analyst

Mark Jarvi

CIBC Capital Markets – Analyst

John Mould

TD Cowen – Analyst

PRESENTATION

Operator

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

Bienvenue à la conférence téléphonique et à la webdiffusion des résultats du troisième trimestre 2024 d'Innergex énergie renouvelable.

At this time, all participants on the phone and the Internet are in 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'd like to remind everyone that this conference call is being recorded.

I'll now 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 inergex.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 our highlights for the quarter, provide you an update on our growth and development initiatives, go through a review of our Q3 2024 financial results, and provide you an update on our 2024 guidance and the 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, and good morning, everybody.

Starting with the highlights of the last quarter, we've seen a little bit of soft quarter, mainly driven by weak resources. The good news is that we had all our operate machine or plant in good availability, so that is what we're focusing on, making sure that our machine are ready to take the natural resources. In this case, the resources was a little bit weak. Nonetheless, we're happy on the general operation.

We have submitted, also, a portfolio of projects in B.C. Call. We'll talk a little bit about it, but very proud of the team that managed to put five bids in this call.

Continue to pursue, also, our diversified growth strategy with new project additions in Chile. We are going to talk about an initiative to put more batteries in Chile, given the opportunity there in terms of payment of capacity and arbitrage in the marketplace.

We also have executed on corporate priorities. We have financed one of our portfolios of hydro, Portneuf facility. Jean is going to talk about it later on, but proud on the team to have executed on this, with a little bit higher outcome than we had expected at the beginning.

If we switch on Page 7, recent achievements. In Chile, we have—like I said, we have been focusing on applying new projects, BESS projects. Remember, that we want to do and achieve with this, is giving us the flexibility of capturing the weak power price during the day in the north of Chile, and basically taking advantage of the difference between the day and the night pricing. Historically, we have

seen quite a bit of good arbitrage there. Just to remind everybody, we have also payment of capacity from the grid operator, and we need roughly \$45 to \$50 of arbitrage to make a decent return on these initiatives.

So, our strategy is to take advantage of the high arbitrage prices that are still happening in Chile, and we anticipate this stay to stay there for two, three, four years, or so, until the buildout of battery builds start to build, and perhaps that arbitration will be less interesting. But, our strategy is to participate in active PPA opportunities in Chile, and we want these batteries eventually to be part of our portfolio, to basically help us provide a good PPA price in 24/7 power, renewable power in our contracts. I don't want you to think that these batteries are only merchant opportunity, they're part of a portfolio to sustain our ability to sign long-term PPAs in Chile.

Also, we have bought a very small hydro facility. It's not necessarily our strategy in Chile, but this plant has been built by a turbine manufacturer and they were looking to sell this asset. This asset is basically sitting on Duqueco River watershed. It's providing their—some water is getting out of that facility just in front of our Mampil intake, so it's contributing to the Duqueco hydro facility, and we bought it for less than \$1.5 million per megawatt, so we think it was a good addition, and a little bit of an opportunity for us to add some hydro in that place.

We also are pretty proud to have now Innavik hydro facility to be fully commissioned. This is an achievement, because, as you remember, this hydro facility is replacing diesel. We think that we will be replacing more than 90 percent of all the diesel that was used in the community in the north. This hydro has been in operation for more than a year now and has been producing steady electricity. With some

modification, we are now as good as generator—almost as good as generator—to supply 100 percent renewable energy in the north. So, very proud of the deal and the team, to have achieved this milestone again, and Hydro-Québec was really happy to have the result of the latest stack (phon).

Development and construction. Very anxious to put the Boswell Springs wind farm in operation. As you remember, we're waiting for Pac to give us the access to their substation. Latest date is third week of November, where we will be able to interconnect on the substation. This is giving us not a lot of time to finish by the year end, but we are also commissioning some of the turbines with a low bank. It's giving us some flexibility. We have over 10 out of 97 turbines fully commissioned, and adding some every week, while we're waiting for the substation. Obviously, if we have access to substation by the end of the month, I think we'll be able to get to the 31st of December. If not, it's going to be one or two weeks of delay. We're that close to be able to be in the full COD phase in Boswell.

Happy also to report that we're on budget, and also we will be—Jean will be talking about it, but we'll benefit from tax equity PTC adder to this project, so the economics of this project still remain very strong, in the mid-teen type of returns. So, quite happy on the team on this achievement.

Hale Kuawehi is getting closer and closer, also, to be commissioned, although it'll be hard to be fully commissioned by the year end. Commissioning has started, but as you know, it's a PV solar with batteries, so it takes a little bit of time for HECO to integrate all the controls in their system; hence, we have moved the COD date into very early year 2025. We think that by the end of the first quarter, all the tests and commission will have been completed. We might be lucky to do it a little bit earlier, but we will be exchanging, also, some electrons earlier than that. It's just that all the tests, it's a little bit

complicated to have all the tests being done with the batteries. They want to make sure that the batteries and the PV solar works perfectly together and provide auxiliary system support to HECO.

Also, we have been developing a lot of projects in our development activities, but like I mentioned, the biggest move is to have now 62 megawatts of battery with five hours of storage in Chile.

Also happy to report on the final signature of the Portneuf facility, and that has provided us the opportunity to put long-term finance in place. Jean is going to talk about it, but we have exceeded the target of refinancing on that facility.

Now, if we move on Page 8, the visible growth from our secured projects. I just talked about Boswell and Hale Kuawehi. These two will be finished in the—I guess in the next few weeks, or a few months all together, so pretty happy on that aspect. Now, we're going to concentrate ourselves to move our development—Rucacura, as an example, you've seen that project there for a long time. We're going to move that project next quarter, probably, under construction. We have secured the main turbine supplier to finish this project. It's not a big project, but, again, it's sitting on Duquenco portfolio—not portfolio, but producing complex, and it's adding a little—we are doing a little thing to basically improve on our existing facility. So, this is a good example to take advantage of the water and structure that was left untouched, to add on a little bit more efficiency on the complex.

We've talked about the BESS II opportunity moving towards the construction, most likely the beginning of 2025. MU2 is in final negotiation firm with the balance of plant. We have secured, also, the supplier of the wind, and we're waiting on the last permit to start construction. This is going to be also coming in construction in '25.

Auxy Bois Régnier, we're a little bit disappointed, because we had won in the second appeal, and, unfortunately, the opponent presented the project to go in again the last court request in France. We think that we'll still prevail, but that has probably delayed the project for 18 months.

Palomino, on the hand, still waiting for the last interconnection piece. We have been told that this is coming by the end of November, beginning of December. Can't wait again to start that construction. We hope to sign, also, a PPA. We have a few good leads there. The price of electricity in Ohio is strong for solar, a lot of demand for that product. There's not that many projects that have been able to interconnect and go through all the permitting. As you know, Palomino has all the permits. We only wait to have the final interconnection date to secure all the other contracts to start construction on Palomino. Hopefully, we'll be in a position to do that next year.

Other places that we had advanced. Obviously, Lotbinière and Peshu Napeu are two big projects in Québec. Starting all the environmental permitting and securing the—the different wind measurements are going to be finalized, in play. So, in a good spot to start the process to advance these two projects.

Now, if we move on Page 9, I think that this is very interesting. We have a strong and big development and diversified portfolio of prospective projects. Again, I think that Jean had mentioned it in the past, also, but it's important to understand that what we're doing in the early, mid- and advanced stage is making sure that whatever we're putting into these three categories are well defined, and that sometimes we're moving projects from early to mid-, or even canceling or retrograding some mid-projects into early.

I'm saying that because I just want to make sure that you understand that these portfolios are real. We have a lot of people working on these and thinking about the ability to eventually put these into RFP. The idea is making sure that we have a lot of opportunity, and diversified our opportunity in the different markets, and also technology.

So, we're moving this and making sure it's not just a slight idea. These projects have a sound development strategy behind them, and sometimes they can move in-between categories, but the idea is to making sure that we have a lot of opportunity and being prepared to answer RFPs. We're going to talk about some RFPs in Canada that is coming in the next quarter or so.

Also, as you see, we have more projects in Canada. We're working in other places. We're working to build also a portfolio in the U.S. You'll see that we're going to add up also some good opportunity and projects in the U.S. Still working in other places, like France, always deploying our project development in France. We have had some good success there, too. But, again, I think that Canada is the place where we can be more competitive. We have been very active in bidding in B.C. I'll mention it later, also. So, we think that Canada is a place where we can grow faster, and be profitable, also. We think that our First Nations partner has a very long, I would say, experience with Innergex. We have had a lot of success with First Nations. We're welcoming those type of approaches with RFPs, and I think that this is the place where we can make a little bit of a difference in the competition against others.

So, on this, I'll let Jean explain the financial results of the quarter, and I'll come back at the end to talk a little bit more about the opportunity that lays in front of us.

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

Thank you, Michel, and good morning, everyone.

For the quarter, the production was at 87 percent of long-term average, similar to results in Q3 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 Québec. These elements were partially offset by strong hydro generation in Ontario and in the U.S., as well as higher solar production in Ontario.

Importantly, we are pleased that our hydro facilities in B.C. are performing in line with their LTAs, and so compared with the last two years of drier conditions in B.C., which disproportionately affected Innergex overall production in 2024, has been impacted by industry-wide issues, mainly in the wind segment. As a reminder, our B.C. hydro assets have historically performed in line with our long-term expectations, and we are pleased that their performance this year has reversed the anomalous generation patterns we experienced in '22 and '23.

We reported Adjusted EBITDA proportionate of \$196 million in Q3 2024, approximately 3 percent lower year-over-year. Despite below LTA generation, our financial performance benefited from the commissioning of our new BESS projects in Chile, strong pricing and cost discipline.

Free cash flow during the quarter was \$70.8 million, or \$0.35 per share, compared with \$0.42 per share in Q3 2023. From a year-over-year perspective, free cash flow was negatively impacted by lower

EBITDA, as well as the timing of principal and interest payments, and higher free cash flows to non-controlling interest, partially offset by lower maintenance capital expenditures.

We remain focused on what we can control, including maintaining high asset availability and efficiently running our operations. Our portfolio diversification strategy also remains important in helping us mitigate overall portfolio risks.

As of the end of Q3, total debt amounted to \$6.4 billion, which was stable quarter-over-quarter.

In Q3 2024, we continued to spend the required CapEx to move our under-construction projects forward, with no material changes to CapEx program for the year. With full commissioning for Boswell and Hale Kuawehi expected in the coming months, we have a good line of sight on the finish line for these projects. Therefore, we're confident in the remaining CapEx spend and overall return expectations.

Our liquidity remains healthy at over \$500 million, supporting all our near-term growth funding needs.

In Q3 2024, we repurchased \$2.4 million worth of shares under our NCIB, and this brings our total year-to-date buyback activity to approximately \$10 million, at an average price just north of \$8.00 a share.

Overall, there are no material changes to our debt structure and our project financing strategy, as most of our debt remains self-amortizing in nature. We continue to see significant long-term re-

contracting and refinancing optionality in our portfolio from the long, useful life of our assets, which extends well beyond our PPA terms.

Following the signing of a 25-year, full inflation-indexed PPA for the Portneuf hydro portfolio, we completed the \$108 million refinancing initiative for these assets in November. The project refinancing amount exceeded our initial expectations and demonstrates our continued execution on our corporate priorities for the year. We are pleased to have further strengthened our financial flexibility through active portfolio management. This second hydro portfolio financing not only optimizes our financial structure, but it also delivers incremental value for our shareholders from existing assets.

To highlight this point, we wanted to take a moment and discuss how we have created value from our hydro fleet with our recent initiatives. In total, we have sourced approximately \$300 million of low-cost capital from these financings. This will not only strengthen our financial flexibility, but will also help us self-fund future accretive growth. We see the potential to reinvest these proceeds at high rates of return, creating a virtual cycle of free cash flow per share growth from strong reinvestment spread.

Another way to consider how valuable our hydro fleet is would be to consider the return of capital from these perpetual assets. Taking Portneuf as an example, the \$108 million refinancing alone represents more than two times the book value of these assets.

Overall, we are pleased to have been able to optimize the capital structure of these projects and crystalize value for our shareholders from our existing hydro fleet. We continue to see our large, unique portfolio of high-quality hydroelectric assets as a clear, sizeable and differentiated funding and value creation lever for Innergex.

Given our performance so far this year, and the outlook for the last quarter of 2024, we are reaffirming our full year guidance for 2024. To be clear, our year-to-date performance has been below our internal expectations, largely due to wind resource issues that are industry-wide and generalized. However, our portfolio diversification strategy, cost discipline and pricing effects have supported our financial results. At this point, we are tracking towards the lower end of our guidance ranges. However, when considering the portfolio management activities completed this year, we expect to be able to potentially exceed our free cash flow per share target for the year.

I would like to close with some comments on the overall outlook. At Innergex, we remain focused on what we can control to execute on our priorities. By remaining disciplined with our capital allocation, we expect our growth strategy to deliver sustainable value for shareholders over time. We continue to see a robust environment for capital deployment, and the structural industry tailwinds for renewable energy have only accelerated in 2024. Rapidly increasing corporate demand for clean power, combined with the electrification of the global economy and decarbonization imperatives, are expected to provide us with significant opportunities to develop, own and operate high-quality assets. We feel confident that we are very well positioned to benefit from these market trends and will leverage our competitive advantages and expertise to capitalize on attractive investments with high-return, adjusted returns in our core markets.

I will now turn the mic 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.

I think it's important to come back on corporate priorities. We have provided you guys with some goals and it's important every quarter to come back on, making a point on what we achieved on this.

Construction, as you heard, we are pretty happy on what we're doing in Boswell, and the advancement also on Hale Kuawehi. So, on construction, I think we're delivering on what we had said we would.

Development, we said that we would want to bid, or win more than 400 megawatts in contracts. We have exceeded our goal to bid more than 500 megawatts of projects across our different markets.

I think that B.C. has been a focus this year. Remember that the bid was issued in March. We submitted five projects in September. BC Hydro has said that they had received about 9,000 gigawatts of proposals. They were seeking 3,000 gigawatts of proposals. This 3:1 seems high, but in our industry, a 3:1 ratio is pretty odds for us to win, and we were surprised to see only 21 projects were submitted. Glad that our teams were able to pull five projects with full First Nations support. All these projects had signed partnership agreements with First Nations, around 51 percent First Nations owned. That provides, also, some points—good, I guess, addition points to BC Hydro's grid of evaluation. So, we feel very confident that we have been producing a good portfolio of potential winning projects in B.C.

Also, B.C. is going to see some more activities in the future. We know that BC Hydro has said that they would be coming back every two years to basically have more need for long-term PPA.

We also see FortisBC—for some of you who don't know FortisBC, but BC Hydro has roughly 90 percent of the—or a little bit less than 90 percent. They have about 13,000 megawatts of installed capacity on the grid, but FortisBC is having distribution rights in the southeast of B.C., and they're looking for an RFP of a little over 1,000 gigawatts of energy, so a little bit over 400 megawatts of capacity. So, that's interesting. That's the first time that we see FortisBC coming with an RFP for IPP. This is giving us more opportunity even in B.C. So, we're getting prepared to answer that Call, as well. This is going to be, basically, in place in 2025, and they need electricity as soon as 2030. So, that's good news for us.

Also, priorities, Jean has described what we've done in our portfolio of hydro, and we have also other priorities, or other opportunities to enhance our flexibility in the next few quarters, so pretty happy on that aspect.

If we go on Page 17, I just wanted to reiterate also great opportunity as a developer in Canada. Mind you, we think that Canada is a place where we can be quite competitive, not only because we have great sites and a good team on the ground, but as we mentioned, most of these RFP opportunities are going to take into consideration adding First Nations partners. We feel good about this. We know that we have been a good partner. We're geared towards being a good partner and delivering value for all the stakeholders in these RFPs.

We're happy, also, to—I was happy to read in the paper that Ford—not the company, but the Premier—is going electric. It was a little bit funny, because we all know that Ford was not necessarily a big fan of IPP and wind and solar, but Ontario has now a program that is very strong in seeing solar,

battery and wind in Ontario. We've seen some reports showing now that the expected need for electricity through 2050 has gone up by 75 percent, so that's over 110 terawatt hours of energy to be submitted in the future. This is giving us, also, some good hope that Ontario will be a good market. You heard me saying that Ontario is going to wake up eventually. Well, it's starting, and I'm very happy to know that our teams are already on the ground making sure that we are securing great opportunities to participate in these RFPs in the future. We think that they are going to come every second year, a little bit like BC Hydro has announced.

So, this is great, because it is giving us also some view. It's not only one super-big RFP, those are coming every second year, so I think this is a smart way to do these RFPs. It provides the opportunity to develop the project. If you're not a winner, you have a chance to rebid the project in the next wave of RFPs. So, I like the future of possibility in Ontario for ourselves, as well.

Of course, you heard me talking about Chile. Chile is seeing a lot of opportunity. Codelco is coming back with an RFP this fall, and also BHP is looking for some RFPs of renewable power. So, all these things are very interesting and opportunity for us.

Of course, the U.S. has seen the election of Trump, which, for some, that could be seen as potentially negative for our industry. We're still thinking that this is still a trend, that in the U.S., we will see some growth in solar and wind and battery. I think that the utilities are embarked in this trend. I think that a lot of states have also some programs to promote renewable energy. I'm not saying that Trump is great news for our industry, Trump administration, but I think that the U.S., as we've seen in the past, will survive this change of policy—politics, because the policy behind this is also managed by

states, and also driven by the need from the customer. The corporate customer wants, also, to have renewable energy. So, I'm not too concerned about the U.S. As you know, we have a small footprint in the U.S., so our teams are focused on some areas where we think we will see some potential in the future. Nonetheless, that we have perhaps an administration that is not as supportive as the prior one, we still think that the U.S. will be a good market for us.

Before going into the Q&A, I'd like to talk about the transition of our Chairman. First of all, I'd like to thank Daniel Lafrance for all these good years of support and dedication to Innergex and Management. Dan has been a great Chairman for the last few years, and he has been a very great contribution as a Board Director prior to that. So, thank you, Daniel, for all these great years and support.

I'd like to welcome Monique Mercier. Monique Mercier comes with a lot of experience, also. She's been in us since 2015. She's been a very well-rounded manager over the years. She has, also, some great experience in Boards of publicly trading companies. I'm welcoming Monique. We know Monique for, like I said, almost 10 years now. She knows Innergex. She has Innergex as heart, as well. I'm sure that we'll see great opportunity under her leadership. She's the first woman being Chair at Innergex. So, congrats on this new challenge, Monique, and we're going to be looking for a lot of great years in front of us under the leadership of Monique.

So, thank you all, and we're opening the Q&A questions.

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

Operator, we're ready to take questions.

Q & A

Operator

Thank you, ladies and gentlemen. If you have a question, please press the star, followed by the one on your touchphone phone. You'll hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys.

Your first question comes from the line of Rupert Merer with National Bank. Please go ahead.

Rupert Merer — Analyst, National Bank Financial

Hi, good morning, everyone.

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

Good morning, Rupert.

Rupert Merer — Analyst, National Bank Financial

If I could start with the U.S. election, given how topical it is right now. I understand you're not too concerned about potential changes in U.S. policy, but if we look at your development pipeline, there

is that one project, Palomino, that had some promise for next year. Do you have any comments on how changes to tax credits or tariffs could impact that project, in particular, and maybe any comments you might have on impact of tax cuts, broadly, across your portfolio, too?

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

That's a good point, Rupert. First of all, we had already secured the panel from a local supplier for solar, so I don't think that this is going to be a big issue for us. Now, if they're reducing the tax corporate, obviously, it might reduce the appetite of PTC and ITC suppliers, but I think that the project is very well advanced and it's well positioned in Ohio for being able to sign a long-term PPA.

The good thing about it is that we haven't signed the PPA just yet, so it's a good opportunity for us to make sure that we would flow-through any change that we foresee coming in the next quarter, or so. We have the flexibility of not necessarily having committed to a fixed price just yet, so it's giving us that flexibility to address ourselves to whatever the Administration would decide in the next few quarters.

Rupert Merer — Analyst, National Bank Financial

Okay, great, and if I could turn to Chile. I'm wondering if you can remind us just broadly about your thesis on that market. How do you see competition building with competitors' batteries coming into that market, and what's the outlook for the decline in thermal generation there? I know that thermal generation is still quite significant, compared to what we see coming from batteries off-peak.

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

Yes, you're right. You know that coal was over 6,000 megawatts and now coal is getting around 5,000 megawatts still in operation in Chile. You have a little bit of natural gas, also, and diesel. Coal is definitely getting out of the equation sooner or later, so this is going to be needed, that capacity will have to be replaced. You know that coal is—5,000 megawatts of coal represents probably two to three times more renewable energy without batteries. So, if you put batteries into them, you would probably need 2,000, 3,000 megawatts of battery being installed in Chile in the next four, five years.

We're seeing a lot of application for batteries being built. Obviously, this is going to play a role in the price of arbitrage. Again, we think that we're going to receive something around 40 to 50 percent capacity payment, in terms of total revenue, we need to have to finalize the battery, and rely about on \$50 per megawatt hour of arbitrage to make those financials work. Right now, we still see \$70 to \$100 of arbitrage, so there's plenty of room for making good returns on the battery for the short term.

But, the pieces behind it, again, Rupert, is to incorporate these batteries into our long-term portfolio. We're going to bid again in Codelco next opportunity. The bid is due by the end of November. BHP wants to have, also, some renewable energy long-term contracts from the grid, and also an opportunity to have two projects, solar and battery, behind the fence. So, those are also a target for us. Remember that we have good experience in Codelco with Pampa Elvira, which is a solar thermal producing low-temperature water for their processes. I think that this is also an opportunity in the future to see some investment. We like behind the fence, because those are take-or-pay, full-indexed

contracts, so we're going to be active, also, on the BHP Call for PV and BESS, that is also coming at the end of this year.

So, there's a lot of activity. That's why we like to have battery already in development, advanced development, that would enable us to answer these Calls and make sure that we can deliver electricity on 24/7.

Rupert Merer — Analyst, National Bank Financial

Just a quick follow-up. If you do look to expand battery plants, what's the scale of the opportunity beyond 62 megawatts?

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

Well, we want to be prudent, because I'm seeing a lot of activities, also. Like I said, there's probably a couple of thousand megawatts of applications for future batteries being built. So, we want to be cautious. We want to make sure that we have also the same pace of growing our long-term contract portfolio. So, for the time being, I think these batteries will match. If we win another 350 gigawatts of power by this year end, we could see, to support that contract, some small incremental battery, and perhaps a little bit of solar, but those are not huge.

But, we want to pace ourselves, and whenever we have some good opportunity and good pricing of contracts—remember that we have been disciplined in the last RFPs of the DisCo. DisCo will also come back this year and next year. So, we have plenty of opportunity to price these RFPs at a decent

price, making sure that the average price during the day, the evening and the night are making a good return on our portfolio basis.

So, we don't want to rush. We don't want to be exposed too much in the battery and being merchant. That's not the strategy at long-term. We're opportunistic, because we think that right now there's a good opportunity to make better-than-average returns on merchant, but our long game is to have those batteries becoming incorporated in our portfolio to service long-term PPAs.

Rupert Merer — Analyst, National Bank Financial

Great, thanks for the colour. I'll leave it there.

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

Thanks.

Operator

Your next question comes from the line of Nelson Ng with RBC Capital Markets. Please go ahead.

Nelson Ng — Analyst, RBC Capital Markets

Great, thanks, and good morning.

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

Good morning, Nelson.

Nelson Ng — Analyst, RBC Capital Markets

Just a quick follow-up on the battery storage projects in Chile. I know the MD&A indicates that procurement contracts have been signed for the two projects.

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

Yes.

Nelson Ng — Analyst, RBC Capital Markets

Does that mean you've secured the battery supplies and locked in a large portion of the project costs already?

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

Yes.

Nelson Ng — Analyst, RBC Capital Markets

Okay. Like, when you compare—I'll call these ones Phase 2, but Phase 1, that were completed last year, versus these projects, can you just talk about what you're seeing in terms of, I guess, projects costs; and then, also, just compare what you're seeing on the pricing arbitrage? Last year, you wanted to finish those projects as quickly as possible, because the pricing arb was pretty large, but can you just talk about the differences between, I guess, Phase 1 versus Phase 2?

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

Well, Phase 2 will be—well, we're conservative in our approach. I think that there will be a slight improvement on costs. We have seen battery costs being under pressure with all the lithium that is now available and China being, I guess, aggressive in trying to sell batteries. Remember that in Chile, we don't have to have any duty on China product. So, I think that this is a good opportunity to have battery being at a decent cost. Remember, also, that we have done and managed the balance of plant ourselves, so we're going to reuse the same contractor, and our employees are now well, I guess, versed in what it takes, and we have also taken the advantage of the first phase to be perhaps a little bit more efficient in the balance of plant. So, I see a little bit of improvement on capital costs, and also ...

Nelson Ng — Analyst, RBC Capital Markets

Sorry, can I just interrupt you?

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

Yes.

Nelson Ng — Analyst, RBC Capital Markets

Will they be at the same site, or very close by, so they could share any of the (inaudible).

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

Yes, same site. It's just an expansion of the San Andres and PV Salvador. We have basically maxed out now the substation capacity of those two sites, so that's why we have basically BESS. San Andres is a little bit bigger, because there's a little bit more room in the substation, and Salvador has been designed to basically be at the maximum substation. So, we don't have any substantial upgrade to do. We're going to take advantage of our operations, already manpower on play. We'll see a little bit of improvement in terms of total operation, as well.

Nelson Ng — Analyst, RBC Capital Markets

Okay, got it, and like you said earlier, you're still seeing pretty strong arbitrage in terms of the pricing.

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

Yes, but, again, I want to really stress this. We're opportunistic. There's the market right now. I don't think it will last forever. But, we take this as an opportunity to be a fast mover when there's an opportunity, but they're going to be—the long-term strategy, they're going to be embedded in our long-term supply of contracts and portfolio approach in Chile.

For us, it's very important. It's easy for us to build solar in the north, and whenever we're going to expand solar, it will probably have battery attached to it. So, that's the north, and we are trying to develop and be ready to have some wind in the south. As you know, we have Frontera and San Carlos hydro facilities with some storage in the south that could be eventually be built if we have enough long-term contracts to support them.

Nelson Ng — Analyst, RBC Capital Markets

Okay, great, thanks for that, and then my next question is a bit different. When you changed your strategy, the focus has been on development rather than M&A. I know you had a particular situation in Chile, where you found it pretty attractive to acquire a small hydro facility, but would you look at future M&A opportunities, whether it's hydro or other types of assets, in North America?

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

Well, we're not focusing on it. If it's something that we can create value, if it's an hydro that needs a lot of refurbishment and then we can think that we're creating in doing this, we might, but we definitely are not going into M&A activities as a standard, run-of-the-mill operation that are already built and being in operation. We're going to focus, if ever we're using M&A, at a highly accretive opportunities, where we think we can create value, but with our own knowledge. We're not focusing on regular M&A at all.

Then, like you said, this 2.7 megawatts, is just that the supplier of the equipment built it and wanted to sell it. We're going to use our same operator. It's on the same site. We've paid about US\$1.5 million, so it's a fraction of what it cost to build a hydro facility. It's brand new. It's bringing water into the Mampil water intakes. So, don't take this acquisition as something that we would repeat. It's really a little bit of an add-on, it's a tuck-in. It was there, there was an opportunity. Our guys were able to do the operation without more cost.

Nelson Ng — Analyst, RBC Capital Markets

Yes, that's a very attractive price. No, I just know that there's obviously some hydro assets in Canada that are up for sale. Yes, I'll leave it there. Thanks.

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

Thank you.

Operator

Your next question comes from the line of Nick Boychuk with Cormark. Please go ahead.

Nick Boychuk — Analyst, Cormark Securities

Thanks. Good morning, guys.

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

Hi, Nick.

Nick Boychuk — Analyst, Cormark Securities

Coming back to the dynamic in Chile, how are you thinking about capital allocation from a return perspective? Obviously, with resources not unlimited, if you're comparing this to the opportunity in B.C., for example, what would the return profile look like on these batteries in a base case scenario, and how would that compare with something that's more traditional, like a B.C. wind project?

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

The B.C.—well, not the B.C., but the BESS, we're looking at double-digit returns and probably midrange for the BESS, so I think it's a compelling opportunity for us. But, you're right. I mean, capital is scarce these days and all the different markets compete for our attention, but it's not necessarily also the same timing. These investments in Chile are quicker and are going to contribute quicker in terms of cash flow. So, this is also being taken in consideration.

We're not going to be shy of putting resources in B.C., but these projects will be needed and interconnect after 2030, so for us, we have time, also, to rethink on how to finance these opportunities. Jean has mentioned that we have opportunity to refinance some of our activities. We can recycle some projects down the road. So, I think that we have that in mind.

We have a program, and we've told you guys that we're not going to issue stock. We have that in mind. We're planning all this with that having in mind. Of course, we want to be disciplined. We want to make sure that these projects are going to be accretive. We need double-digit return to make accretion in our industry, so we have that in mind, and the Development Team have that in mind, as well. I mean, Jean, myself and others are reminding them that we just don't want to win megawatts, we want to win megawatts that can create value.

Nick Boychuk — Analyst, Cormark Securities

Okay, thank you, and sticking with battery energy storage for a second here, it was interesting to see in the development pipeline that a 100-megawatt project went straight to the mid-stage in the U.S.

Can you give a little bit of colour, please, on that project, the opportunity set, kind of how that came up, and why it went directly into the mid-stage?

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

Because we—well, we've been preselect for that project in the States as a bid, yet we haven't had the final decision, but we're glad to have been preselect, so that, I think, was warrant to be moved in the project, I would say, ranking. We don't want to say too much more, because it's—I think it's a great opportunity. We think that knowing what we can do in terms of battery—we have learned a lot from the first phase we've done in Chile, and also in Hawaii and in France, so we have now gone through all the process of installing, commissioning, also, those batteries. So, I think that our teams are getting pretty good in pricing batteries. We were preselect, that doesn't mean anything, but, I mean ...

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

And placing them in the interconnection point, I think was fundamental. So, our experts really found a great spot to place that battery system and bid it.

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

Yes.

Nick Boychuk — Analyst, Cormark Securities

Okay, appreciate the colour, guys. Thank you very much.

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

Thank you.

Operator

Your next question comes from the line of Mark Jarvi with CIBC Capital Markets. Please go ahead.

Mark Jarvi — Analyst, CIBC Capital Markets

Yes, thanks. Good morning, everyone. Just on the U.S. projects, you talked about Palomino, but maybe the Wautoma Solar Project, or this battery storage project, where would be on Safe Harboring of equipment to ensure you can get as much tax credits, in case there was some repeal or changes down the road?

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

Yes, you're right. On Wautoma, everything is open, in the sense we have applied for an interconnection study. We think that we might have a way of not spending too much money there. We're getting very close to have the permitting in Wautoma. I guess the important thing is not committing to a price, a fixed price, if we're not sure on the outcome of the PTC and the supply chain. So, for us, we're advancing the project to a point where we could have interconnection, and also that we would have the permit. After that, we'll be cautious on submitting price, to make sure that we could qualify for all the tax opportunities that we have.

I think this is the lesson learned from the last cycle of inflation. The important thing is making sure that you stay flexible in your PPA terms, to take into consideration anything that comes to light in terms of new regulation.

Mark Jarvi — Analyst, CIBC Capital Markets

But is there no reason why you couldn't procure some transformers, or something like that, just to ensure that you could get Safe Harbored, and then if you never used in the U.S., you could move them to projects in Canada? Is there not that flexibility?

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

We could. Those strategies has been sometime backfiring on us in the past, but we haven't done that with Wautoma. I think that the projects that we are submitting for the BESS, I think the battery that we have selected would qualify, but, again, we have not finalized the price with the off-taker just yet.

Mark Jarvi — Analyst, CIBC Capital Markets

Okay, and then what are you seeing in terms of wind turbine pricing on imports into Canada for projects, and then balance of plant? Specifically, on the B.C. RFP, can you remind us again whether or not there's any protection on any sort of inflation pressures around equipment costs?

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

No, there's no flow-through, except from the CPI, so that's a little bit of something that we had taken into consideration and taking enough contingencies, to hopefully have at the end of the day a

great project. But, this is a little bit of a challenge of our industry. We're bidding projects in '24 to be delivered in '29, '30, '31, so obviously the team have to build some contingency in the pricing, so that we hopefully have all the flexibility in our budget to complete the project at a reasonable cost to warrant a good return at the end of the day. But, it is a little bit of a challenge. The team knows it and try to make sure that we have enough contingency in the bid.

Mark Jarvi — Analyst, CIBC Capital Markets

Then, with the strengthening of the U.S. dollar, does that impact at all what you're seeing in terms of actual build costs here in Canada?

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

Some suppliers would use the U.S. dollars. We don't have too much exposure to that. In some cases, we have some flexibility. Because, again, buying equipment for B.C. will not happen before '27— yes, I guess '27 and '28, so I think that there's plenty of time for the dollar to readjust. I share your thought. I don't think that the Canadian dollar will be super-strong in the next few months or quarters, but like I said, we will not have to deploy that money in Canada until '27-ish.

Mark Jarvi — Analyst, CIBC Capital Markets

Okay, all right. Appreciate those comments, Michel. Thank you.

Operator

The next question comes from the line of John Mould with TD Cowen. Please go ahead.

John Mould — Analyst, TD Cowen

Hi, good morning, everybody.

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

Hey, John.

John Mould — Analyst, TD Cowen

Just a couple of things on your assets in Eastern Canada, I guess—or, sorry, in the eastern side of North America. On Curtis Palmer, I think PPAs there are volume-based, so I think that's up in 2026, or maybe late next year, depending on performance. Just wondering what your re-contracting options look like there in terms of corporate off-takers. I think when you made the acquisition, you highlighted the strength of Hydro-Québec's marketing franchise there, and I'm just wondering how their involvement potentially factors into that process.

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

That's a good question. We're talking to them. It's a little early before securing anything, but we're scouting now the market with their help, and you're right, that it's volume-based, and depending on the outcome, it will be late '25, or early '26, so we're getting prepared.

One good thing, I think, especially in this area, if it's good news, Trump is not super-supportive of offshore. I think that the Northeast was bidding on fairly competitive offshore wind to help ease the renewable energy price. That, in a way, I think is going away. So, this is probably positive for renewable

energy in that area. So, we're not in a rush into signing just yet. If PTC also goes sideways in some instance, that could be supportive of existing assets for re-contracting. So, I think we're on a good spot there in terms of opportunity to have better pricing than what we had anticipated when we bought it. We know that it's already higher than when we bought it, but I think we're positive and we're exploring our option there.

John Mould — Analyst, TD Cowen

Okay, those are all good points, thanks for that, and maybe just on Québec and the plans for procurement and development of larger wind projects there, it would be great to get an update on your thoughts around where IPP partnerships in those larger projects are potentially going and when you're hoping to get a better sense of how that—whether it's an RFP process, or however else it's going to be managed—is going to play out.

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

Yes. Well, first of all, this week, or late last—no, early this week, we saw Hydro-Québec explaining their plan to upgrade their transmission system, high-voltage 735 kVR targeted there. There's been an announcement on the Appalachian area linking the south of Québec towards the northeast and the Peninsula of Gaspesia for roughly 1,000 megawatts. There's also some area where they want to spend money just south of Manicouagan area, Baie-Comeau area. They want to spend quite a bit of money there to increase the capacity of moving electricity from the north towards the centre. There's also some investment in the, I would say, lower Laurentian area. So, we're seeing a lot of activities from Hydro-Québec getting prepared the transmission system to receive more megawatts in the coming

years. So, that's good news. Because, we always said that interconnection is mainly the bottleneck of many projects. So, seeing them being proactive in spending a lot of money in high-voltage transmission lines give us some good hope that we will be able to either bid projects in '25 or '26—they all said that Hydro-Québec has confirmed that they want to have an RFP in the next quarters—well, '25 or '26.

Now, the biggest question is how are they going to share the responsibility and challenge of building these big hydro—not hydro—wind projects. They mentioned that IPP will have a place, up to about a third, on these big projects. We don't know the full extent on that opportunity. I think that Hydro-Québec is waiting, also, for Bill 69 here to be completed before being able to be more open in this. But, obviously, we are in contact with First Nations partners that are potentially being targeted as being partner in this area.

We hope, like I said, that we'll be—we'll certainly be considered, because what we have heard from the criteria is that Hydro-Québec is going to be looking at the experience of both being an operator and experience to be partner also with First Nations, so I think that we fit well in those criteria, and we'll be there, certainly participating in these RFPs or contacts to basically be partnered with Hydro-Québec and First Nations and local communities in this opportunity, for sure. But, I think we'll know a little bit more in early '25 on how this will unfold for Hydro-Québec big projects.

John Mould — Analyst, TD Cowen

Thanks very much for all the detail. I'll leave it there.

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

Thank you.

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

Thank you, everybody, and we'll call you, Ben and Jessica, right after.

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

Thank you, everybody, and sorry for the technical glitch. Thank you.

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

Thank you for joining us.

Operator

Ladies and gentlemen, that concludes today's call, thank you all for joining, and you may now disconnect.