

**Innergex Renewable Energy Inc.**

**2023 Third Quarter Results Conference Call and Webcast**

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Innergex Renewable Energy's 2023 Third Quarter Results Conference Call and Webcast. [Operator Remarks in French]

At this time, all participants on the phone and internet are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session for analysts and institutional investors, and instructions will be provided at that time for you to queue up for questions.

If anyone has any difficulties hearing the conference, please press \*, followed by 0 for Operator assistance at any time.

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

I will now turn the conference over to Karine Vachon, Senior Director, Communications. Please go ahead.

**Karine Vachon** — Senior Director, Communications, Innergex Renewable Energy Inc.

Thank you. Hello, everyone, and thank you for joining us today. I'd like to remind you 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 home page of our website at [www.innergex.com](http://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.

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.

Our speakers today will be Mr. Michel Letellier, President and Chief Executive Officer, who will present our corporate development and growth opportunities; and Mr. Jean Trudel, Chief Financial Officer, who will discuss the execution of new initiatives and financial overview.

I'll turn over the conference to Mr. Letellier.

**Michel Letellier** — President and Chief Executive Officer, Innergex Renewable Energy Inc.

Thank you, Karine, and good morning. We have a very nice weather in Montreal. It's snowing. So anyway, we will be going through our results, and I'll be talking about the major activities that we had during the last quarter.

Starting with the commissioning of our Salvador battery storage, I had the pleasure to host the Minister of Energy while we were celebrating the COD of this facility. I think that the presence of a Minister of Energy in our opening ceremony shows that this type of investment is very important for Chile. It will be enhancing the ability of taking the advantage of the great sun and solar resources in the north of Chile.

For us, we're pretty happy. Things have been going on a fast-track. If you remember, we are taking advantage of being an early adapter of this technology in Chile. At the beginning, like I said in the past, we will be taking advantage of the arbitrage between the day and the evening and during the night.

These batteries will benefit also from a very strong capacity payment that the coordinator in Chile has put together. It will represent between 45 percent and 50 percent of the expected revenue, so it's a strong base to support this type of investment.

And based on very conservative forward curve, we think that we'll be capturing something around \$50 to \$60 per megawatt hour as arbitrage. That is fairly conservative, given the actual arbitrage we can and have been capturing lately. It's over \$100. So what you're seeing here as \$8.2 million is a run rate in terms of revenue, taking into consideration the capacity and a fairly conservative arbitrage.

I told you also that our long-term view of these investments is to be basically embedding these batteries in our portfolio strategy to make sure that we can serve our long-term contract on 24–7 hours. So of course, we're going to take the advantage of the early years, where we think we'll see a lot more volatility in the price during the days and the nights, especially in the north of Chile.

But the long-range business case in these investments in batteries is to have this as another tool, another technology in our portfolio, so they will be embedded in long-term contract commitments that we will be doing in Chile.

If we go on the other page, some activities, construction and development activities highlights. Starting with our Innavik, a small hydro facility in the north of Quebec, have been delivering electricity. We are finalizing all the commissioning.

One has to understand that this is a remote community, and the hydro has to deliver and make sure that the power is stable. So takes a little bit more time to commission than a regular hydro facility, but we're confident we'll be able to achieve our COD soon.

Also, still in Chile, the second project, San Andrés BESS storage initiative, are advancing very well. Same principle as Salvador I just said, same battery, same system, same philosophy. We think we'll be able to start injecting in the grid beginning of December, and commissioning should be happening a few weeks later, maybe end of December, beginning of January for full commissioning.

Boswell Springs is a big undertaking. It's a big project. We're happy to report that the construction is going very well. We're advancing the schedule. Remember that the COD is supposed to be happening on Q4 next year, so everything is aligned. All the foundations have been poured. The main transmission line is almost finished, so we're pretty happy on the speed of construction on that big project.

Jean is going also to talk about the financing. We're happy to have concluded our financing on that project.

Hale Kuawehi, if you remember, we have been successful in price increase. Our PPAs have been accepted by the PUC. So even though we had limited activities of construction during the quarter, things have ramped up pretty fast on this quarter, and we're already putting solar panels on trackers. So things are still looking for a COD date in October next year.

Mesgi'g Ugnu's'n 2, the project we won in the last RFP of Hydro-Québec, is getting all organized. We're negotiating construction agreement, and also, we're also working on environmental permitting, so things are going well on that front.

In France, we have signed our interconnection for Auxy Bois Regnier. That's a 29-megawatt wind facility. The last thing we need is to have the conclusion of the legal challenge that some opponents have

made. We're hopeful that we should get that in the next month or so, and that would be the only milestone left to go through before starting construction on this project.

Switching to a more general discussion about the Hydro-Québec Action Plan that was made public last week, very, very positive. And I think that I'll take a few minutes to explain what it means for us, for Quebec, but also for the market in Canada in general.

The broader message to the—well, to the stakeholders from Hydro-Québec is that by 2050, they will need to double the size of Hydro-Québec production. So basically, they're calling for doubling the use of the electricity, green electricity, in Quebec.

Why this is so important for us and, I think, for the opportunity in Canada, is—just to give you a broad vision—is the pie of the total energy consumption in Quebec, about 42 percent of this is electricity. The rest is fossil fuel and biocarburants.

Why I think this is awakening for the rest of Canada is that if for Hydro-Québec, 42 percent already clean energy, in order to take out all the other fossil energy, you would have to double the size of our electricity. Imagine the rest of Canada, where this 42 percent is already electricity consumption. It's probably less than 30 percent in many other markets in Canada.

So if Hydro-Québec has to double when they have 42 percent, imagine the other market opportunities. So that's why we're so bullish also on Canada, being BC, Ontario, Saskatchewan, and New Brunswick are our preferred markets to play. But I think that this is providing you the size of the opportunity for Canada development in the next years.

But to focus more on their more shortened vision of 2035, what does that mean for us? They're calling for tripling the capacity of the wind power installed capacity in Quebec. They're committing to have 10,000 megawatts of new facility by 2035.

So obviously, our focus on Quebec will be mainly wind, but there will probably be also some opportunity in solar, batteries, and some small and medium hydro possibility might arise also in that plan.

So pretty important for us and, of course, they will have to focus, and they are calling for a lot of investment in the transmission infrastructure. And I think this is the key also to be able to interconnect new facilities. I think that other provinces should also look very carefully on that plan and, hopefully, they will also act accordingly, giving us opportunity on other markets in Canada.

If we're switching, progress in Canada, United States—I'll cover very briefly what we're doing in our four markets. But as mentioned, Canada, I think Canada is going to provide a lot of opportunity. We're getting ready to propose projects in the Saskatchewan RFP. We have two solar and one wind that have been prequalified.

BC Hydro has also announced an RFP that will be dated—not dated, but a date for depositing proposals will be August, so quickly coming. We are refocusing our teams there in BC. Remember that we have a strong office in Vancouver, and we're ready to take the challenge to bring new project in BC.

We are also—of course, like I said, Quebec is a huge market for us in the next year, so we will be accelerating and focusing our effort in order to grow our prospective project in Quebec, in order to have many, many projects ready to submit in future RFPs.

We have been submitting two projects. We're totalling 400 megawatts in the last RFP. We're waiting for the results, starting probably December. That could be extended in January, but Hydro-Québec have said that they will try to give the winning project in December.

United States is a huge market, I say. Don't get me wrong. I'm very pumped up on Canada, but United States is huge a market, and we have, of course, our team focused in trying to bring new projects as well.



We have been submitting, also, our Palomino 200-megawatt wind—not wind—solar project into the last step for obtaining our interconnection date, very anxious to get it. All the teams are ready to start. We have our offtaker on the sideline waiting to finalize a PPA, same thing with contractor. We have all our environmental permits on hand, so very anxious to get our date so that we can start the construction on Palomino.

We also work pretty hard on some new solar activities in Colorado. There will be some calls in Colorado, so we're getting there. We're getting it ready down there as well.

But we also have initiated more development activities on 400 megawatt wind in Wyoming, very close to Boswell. As you remember, we have this tie, the transmission line that interconnects to Pac, and we have room on our right-of-way to put another transmission line. So we're pretty optimistic that we could pull another big project in that part of the world in the next few RFPs that Pac is planning.

France is always a great opportunity. As you know, it takes time to develop projects in France, but we're getting there. As I mentioned, our project Auxy is getting very close to start construction, but we are also advancing new projects. The team is in place. And we have now the support of Crédit Agricole to support the development in France, and we're hoping that having, also, a strong financial local partner may help us buying the social licence in some areas in France.

One of our interesting projects is the 87-megawatt solar. This is a big project in France. As you know, usually, we can see smaller projects, but this is a very interesting concept. We are providing agrivoltaic opportunity to generate more revenue for—not landowners, but [Management Remarks in French]—

**Jean Trudel** — Chief Financial Officer, Innergex Renewable Energy Inc.

Farmers.

## **Michel Letellier**

—farmers, thank you. That’s another easy one. So I think that this new way of proposing partnership with local farmers to enhance their total revenue will be very well received in that region.

I mentioned Chile also, with the BESS, but we also have quite a bit of an interesting opportunity to sign long-term contract. Codelco just made a call last month. We submitted a proposal for 250 gigawatts a year. We are very careful in our bidding in Chile. We’re putting very interesting price of PPA. If we win them, we’ll be very happy.

Other opportunity also is for the DisCo PPA. This is the total regulated utility that comes every now and then to have long-term PPA. This time, the PPAs are for 20 years, fully indexed PPA, so pretty interesting. We intend to submit and participate also in that RFP.

And we also have acquired and in the process to finalize the acquisition of 45 percent interest in Pampa Elvira. This is an interesting solar low-heat water to support Codelco. We have just renewed a 10-year extension on take of firm delivery of hot water with Codelco. So this acquisition is giving us the opportunity also to develop future projects in Chile offering hot water coming from solar in industrial processes. This is very interesting business. I think we have, also, some opportunity in the future in that technology.

On that, I will pass the puck to Jean Trudel to give you some financial highlights. And I’ll come back at the end and, of course, we’ll be available for questions. Thank you.

## **Jean Trudel**

All right. Thanks, Michel, and good morning, everyone. So I guess we’re very busy, as you can see. And it’s important to note that we also added 587 megawatts of new prospective projects during the quarter and, as Michel mentioned, we’re actively working on several new opportunities as well.

So I will go quickly over the financial highlights. And as shown on the slide here, the Corporation's financial performance posted strong growth for the three months ended September 30, 2023, compared to the last year, last year. In essence, production reached 2,600 gigawatt hours or 88 percent of long-term average, and revenues and production tax credits were up 9 percent at \$292 million compared with the same period last year.

And the results of the quarter can mainly be explained by two things: lower production at the hydro facilities in BC that continued over the quarter and lower wind regimes at the Quebec facilities, which were both mainly impacted by very unusual weather conditions. So it's important to see that.

And when we isolate these two factors, had production levels been equal to their long-term average, for just these two specific items, revenues would have been higher by approximately \$30.5 million and \$60.3 million for the quarter and the year-to-date periods respectively.

So these two items define, really, the quarter in itself. Obviously, the recent acquisition of three solar projects in Sault Ste. Marie in Ontario earlier this year and the overall performance of the other assets contributed to partly offset the effect of these unusual weather events.

For the three-month period, operating, general and administrative and prospective expenses were up 12 percent at \$87 million compared with the same period last year. And this increase is mainly attributable to the Sault Ste. Marie acquisition but, in large part also, the impact of the France 2022 Supplementary Budget Act expense, from higher maintenance expense at several facilities in Quebec—wind facilities, mainly—and higher operating costs in the States.

As a result, Adjusted EBITDA for the quarter reached \$180 million, which represents a 7.5 percent increase compared to the same period last year.

On a proportionate basis, Revenues and Production Tax Credit Proportionate were up 7 percent at \$317 million, and Adjusted EBITDA Proportionate reached \$201 million, which represents a 5 percent increase compared to the same period last year. And the Corporation recorded net earnings of \$4 million for the three months ended September 30th compared with net earnings of \$21 million for the same period last year.

On the next slide, for the trailing 12 months, the Corporation generated free cash flow of \$121 million compared with \$186 million for the same period last year. And this decrease is mainly explained by a decrease in cash flows from operating activities, as I explained; an increase in interest paid, stemming from mainly additional indebtedness to finance our acquisitions and the construction activities; and an increase in maintenance CapEx on some projects.

These items were partly offset by the incremental contribution from the 2022 and 2023 acquisitions, the increase in merchant prices at certain US and Chilean facilities, and a decrease in free cash flow attributable to noncontrolling interests for the BC hydro facilities.

The decrease of \$65 million in free cash flow resulted in a payout ratio of 121 percent for the trailing 12-month period compared with 78 percent for the same period last year. So it's important to normalize this, in our view. And so when we normalize, and we assume 100 percent LTA. And we're very conservative in our normalization. We normalize also the project that benefitted from higher pricing, for example.

So when we normalize, assuming 100 percent of LTA, except for Chile, Revenues and Production Tax Credits and Adjusted EBITDA would have reached \$310 million and \$199 million respectively in the third quarter. Or on a trailing 12-month basis, with all previous four quarters normalized for 100 percent

LTA—again, except Chile—the resulting payout ratio would have been in the range of 75 percent to 82 percent.

I would like to take a few minutes to give an update on our funding initiatives that were mentioned previously. So I guess we have good announcements.

First, on July 14, we announced the construction financial close of the Boswell Springs project. And more recently, we've announced also the tax equity commitment that was closed for \$442 million on October 19. So with the tax equity commitment completed, the financing activities for the Boswell Springs projects are all completed.

Secondly, on August 7, we announced the signature of an agreement to form a long-term partnership with Crédit Agricole Assurances for the sale of a minority interest in our French portfolio. And on October 26, we announced the completion of that partnership, and we received the proceeds. The proceeds were used to reduce Innergex's revolving credit facilities, which will then be used to fund the Corporation's development activities over the coming years.

And last quarter, we also announced two phases of nonrecourse project financing initiatives for hydro assets in Canada. We are about to close the first phase of that refinancing with the first three Canadian hydro assets. It's expected very soon, and that should yield proceeds of about \$170 million.

And we have three additional hydro assets that are part of a second phase, which is expected to close somewhere in 2024, and that second process is targeting a proceed of about \$80 million.

So by financing our unencumbered assets, we're taking a proactive step to reduce our revolving credit facility. And by executing on that strategy, we increase liquidity, of course. We protect, also, the investment-grade rating that we have. And we stay on track for funding our growth.

Now in addition to focusing on the execution of our funding initiatives, I would like to put an emphasis on the way we de-risk our projects and protect our returns and performance for our current portfolio of assets in operation.

So we generally use a high proportion of long-term debt that is nonrecourse to the Corporation to finance all the capital requirements of our facilities. We mitigate the risk of rising interest rates by entering into fixed-rate, long-term financing agreements and/or interest rate swap agreements. So higher interest rates are not impacting our capacity to generate cash flows from operations.

We still have, today, a small floating rate exposure, at the corporate level, mainly. But once the funding initiatives that are mentioned earlier are completed, we will have essentially no exposure to interest rate fluctuations.

The segments in which Innergex operates have been impacted by rising inflationary pressures. Our operating facilities have shown resiliency towards inflation, as most of our long-term PPAs contain partial or full indexation clauses that annually adjust for the effect of inflation. So as such, inflationary pressures on operating expenses are generally offset by higher revenues.

And lastly, periods of above and below-expected resource, as we are living it now, occurs obviously throughout the life of our assets. But our strategy is to always maintain and increase the diversification of our portfolio of assets, both in terms of geography and sources of energy, to alleviate the seasonal and production variations.

Generating long-term, stable cash flows and building high-quality projects is our focus, of course, and we continue to believe that diversification is really key to achieving these goals.

Now I just spoke about the resiliency of our existing operating base, but I'd like to also highlight the disciplined approach that we take to maintain our target levered IRR, or internal rate of return, on future projects.

So when we submit prospective projects to all the RFPs, requests for proposals, and the coming RFPs that Michel talked about earlier, we of course consider all aspects of recent cost increases, inflationary pressures, and interest rates, and et cetera.

The intent that we always have, and we've always done it, is to capture a spread of about 600 to 800 basis points over the Canadian 10-year bond yield. This translates today in about a target return of about 11 percent, 12 percent levered after-tax return. A couple years ago, it was 8 percent, 9 percent.

The importance of this is that we always need to capture a return that will give us sufficient return for the—sufficient premium over the risk that we take. And this target return will, of course, fluctuate in time as market conditions evolve, but it's always been our approach to the RFPs.

Consequently, our future projects incorporate the new market reality and will provide a strong profitability and will be accretive to our shareholders. We will continue to be very careful in allocating capital to the right projects, so not only building megawatts that are very valuable to communities and to the environment, but also a sustainable stream of cash flows with the goal of increasing free cash flow per share.

So lastly, I guess, overall, our financial focuses, which are also our key drivers for future performance, are to, firstly, execute on development and construction activities on time and on budget; secure equity funding for our existing projects to be commissioned over the coming years so, basically, pushing away, pushing back as much as we can, as far off as we can, the need for equity assurance.

We are focused on closing our hydro portfolio nonrecourse project refinancing. We have a disciplined and selective rotation of capital, and we will find initiatives to strengthen our balance sheet, reduce risks, and finance additional growth as required. And we have a sound management of our balance sheets, according to the rating agency's requirements, to protect our investment grade rating.

And lastly, all of this, obviously, is to deliver accretive free cash flow per share value to our shareholders.

So I will now turn the floor back to Michel for the closing remarks. Michel?

**Michel Letellier**

Thank you, Jean. And I would echo your comments on many things. But on the short term, we will be focusing on getting our financing of the unlevered facility, hydro facility, as Jean mentioned. This is going to bring some new liquidity in the short-term basis.

Focusing on San Andrés' battery storage project in Chile is very well advanced, and I think this is going to contribute right away into the Q4 bottom line.

Advanced construction on Boswell, as I mentioned, this is a big project. This is also going to be a great, accretive project when it's going to get in service.

Hale Kuawehi, same focus on starting to accelerate the construction so we can deliver that project in October next week (sic) [year].

France, as I mentioned, we're getting very close to have the construction initiative in France. We've been waiting for a long time for this, but it's starting to pay out.

And as we've seen, the Crédit Agricole has awarded us or gave us the benefit of that growth over the years in the valuation of their 30 percent acquisition stake in our portfolio. So that was a great not



prospect, but proxy on what we have been able to develop and create value over the years in France. And it's only the beginning. We have now a good and strong presence in France.

Just want to make sure, also, we are renewing our vow to create value on our development activities. As I mentioned, we are seeing so many possibilities in the four markets that we are working in. So our focus will be to bring more and more prospect projects so that we will eventually have more and more PPAs assigned and committed to develop these projects down the road.

And as Jean is saying, we have taken into consideration all the new reality in terms of interest rates and construction costs and supply of the wind turbines or the solar panels. So we are updating all our bidding assumptions in order to secure good returns for accretion on our bottom line going forward.

So thank you and we'll be starting taking some questions.

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## Q&A

### Operator

Thank you. Ladies and gentlemen, if you have a question, please press \*, followed by the 1 on your touch-tone phone. You will 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 Rupert Merer with National Bank. Please go ahead.

### Rupert Merer — National Bank

Hi. Good morning, everyone.

### Jean Trudel

Good morning.

**Michel Letellier**

Good morning.

**Rupert Merer**

With the debt financing you're looking to raise on the unlevered hydro assets, can you give us a little more colour on that? What rates do you think you can achieve on those? And what's the duration that you'll have on that financing?

**Jean Trudel**

Well, it's pretty easy, Rupert. Yeah. As you know, these type of bonds or financing, project financing, are based on bonds, roughly, to 15 years. Bonds are trading, roughly, at 3.75 percent these days. And then you have to have a spread that is anywhere between 2.25 percent, 2.75 percent these days, the premium. So you would end up having a coupon just over 6 percent, theoretically.

But we are staging it in the sense that we're getting very close to closed on the first phase. Given the—I wouldn't predict it, but given the likelihood that interest rate pressure is starting to ease, we have decided to do it in two tranches. So we'll do the other tranche of \$80 million to \$90 million in the first quarter next year.

**Rupert Merer**

When you think about timing, there's potential rates are coming down. But what's the urgency on the need for capital? At this point, I think you highlighted you'll pay down your revolving credit line. But if you don't close that financing, are you hindered in any way in your ability to continue to invest in growth?

**Jean Trudel**

No. We just are mindful that Fitch is looking into our exposure into the holding, our line of credit. So this is basically the target there, that we just want to make sure that we maintain our rating with Fitch.

**Rupert Merer**

Right. And then secondly, if I could ask about Boswell, this is your biggest construction project today. Can you give us a little more colour on the total cost and the schedule for that project? And any risks there may be to either of those items, the budget or the schedule, and how you're managing those risks?

**Jean Trudel**

Well, I think that we've been working hard in making sure that we have now all fixed price components with Mortenson, and the transmission line is basically done. So we have done it in the budget, and we have also secured the pricing for the turbine with GE. So we don't foresee much risk down there.

There's always some possibility when we build, but we have now fixed all the prices and the delivering of the major components. The only risk is, given the erection of the turbine, sometimes, you have a little bit of a weather constraint. If it's too windy, sometimes, you can have some delays that are building.

We have some contingency on that plan, but this is basically the last hurdle we could see. But if we have more wind days that are delaying the installation, we may have some cost overrun on those aspects, but this is certainly not material. And we are—

**Rupert Merer**

Is that through your—

**Jean Trudel**

—we have all the delivery of GE secured for early spring so that, as soon as the snow is out, we are starting to erect the turbine. And Mortenson is all committed to have the crane and the crew to make sure that we get into operation in October, November next year.

**Rupert Merer**

All right. Great. I'll leave it there. Thank you.

**Jean Trudel**

Thanks.

**Operator**

Your next question comes from David Quezada with Raymond James. Please go ahead.

**David Quezada** — Raymond James

Thanks. Good morning, guys.

**Michel Letellier**

David.

**David Quezada**

Maybe turning over to Quebec and the RFP that you bid into there recently. Any colour you can provide on how competitive you expect that will be? I know that there are a lot of RFPs coming. Or maybe even any just colour on your bidding strategy there?

**Michel Letellier**

Of course, we will not tell our secret, but I think that we've always been open, and I think we can be a great partner with First Nations. So we have been working with First Nation communities in Quebec and in the rest of Canada to make sure that we have good support from local communities, including the

First Nations. So I think that this is something that you have to have in Quebec and, certainly, in BC as well. You want to make sure that you are welcome in the communities.

And I think that Innergex has been on the forefront of being a good partner with local communities and First Nations. I think that this is something that we are good at, and I think this is a differentiator to the rest of the industry. I'm not saying that the other guys cannot do it, but I think that we have proven to be a very good long-term partner with First Nations.

**Jean Trudel**

And maybe just to add, David, we secured an exclusivity also with—

**Michel Letellier**

Right.

**Jean Trudel**

—Pessamit First Nation in this particular RFP. So a large, well, I guess, all the territory, the claimed territory of the Pessamit. And exclusivity is a good thing, and we submitted one project with them.

So now, it becomes a question of price, of course, but I think we have a good differentiator there.

**Michel Letellier**

And it was competitive, but not that competitive. If you remember, the area where interconnections was available came late in the process last year. And I think that, although it was competitive, it was not that crazy competitive.

**Jean Trudel**

Yeah. When you look at the multiple of bids compared to the awards that we're waiting to see, the 1,500 megawatts, like you see the number of bids, I think it's—it was close to 3,000 but we—

**Michel Letellier**

Some were—

**Jean Trudel**

—didn't have—yeah.

**Michel Letellier**

—competing against—

**Jean Trudel**

Against each other.

**Michel Letellier**

—each other in—

**Jean Trudel**

So that ratio was actually quite acceptable compared to recent RFPs that we've seen in other markets, where the multiple of bids compared to the awards is much different—

**Michel Letellier**

Yeah.

**Jean Trudel**

—much higher.

**Michel Letellier**

Yeah.

**Jean Trudel**

That's it.

**David Quezada**

That's great colour. Thanks. Appreciate it.

**Jean Trudel**

Yeah. You're welcome.

**David Quezada**

Maybe just one sort of follow-up on, I mean, certainly sounds very encouraging, the targets that Hydro-Québec has in the province. I'm just wondering if you could maybe just update us on any discussions you may have had with Hydro-Québec with respect to your partnership there? What kind of opportunities do you see that providing going forward here?

**Michel Letellier**

I think Hydro-Québec is, and I don't want to talk for them but, given the sheer amount of work in Quebec, I think Hydro-Québec will try to be creative in their approach in order to have the support of local community as well and accelerate the development. There has been, in the past, some opportunity where Hydro-Québec has selected to go direct with a group of developers being, and also including some local communities. This might be one opportunity over and above some RFPs that Hydro-Québec is going to lead.

So we'll be in touch, definitely, with Hydro-Québec. We'll try to be a great partner of choice for First Nations in that approach. And hopefully, we'll have success. We definitely have a target to have our fair share of that 10,000 megawatts going forward. Historically, we have had anywhere between 20 percent and 30 percent of these awards. And this is definitely a target that I would be—I wouldn't be happy if we miss.

**David Quezada**

Okay. Excellent. Thanks for that answer. I'll turn it over.

**Michel Letellier**

Thank you.

**Operator**

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

**Nelson Ng — RBC Capital Markets**

Great. Thanks. Just want to start off with more of a big-picture question. So you have a number of wind developments that you're advancing. How do you think about turbine suppliers? And do you have a preferred turbine supplier? I'm just asking because we've heard about Siemens running into some troubles lately.

**Michel Letellier**

Yeah. That's a good point. We're hoping that, for the sake of the industry, that these turbine manufacturers get better financing—not financing, but get their act together. It's important for all of us.

I think that as our industry is getting, I would say, more and more opportunity, going forward, I'm hoping that the turbine manufacturers will get that we don't necessarily need, every second year, a new turbine. We need reliable, efficient turbines that work. And I think they get it. I think that, that race to have new models every now and then is killing them.

So I think that—and we have heard Siemens Gamesa's problems. We don't have any Gamesa turbines in our fleet, so we're not—

**Jean Trudel**

Except Montana, but it's a different model.

**Michel Letellier**

Yeah. Yeah. Well, we have Siemens, but not the Gamesa—

**Jean Trudel**



It's not the Gamesa—

**Michel Letellier**

—not Gamesa. So we're free of these issues. We're not saying that we don't have issues with GE or Vestas, but I think that they're getting refocused, and it's a good thing. And even if they raise the price, if we know in advance, we are, as Jean is saying, updating our strategy to bid, taking into consideration these new prices for turbines. The important thing is that we know in advance so that when we bid, we have these new prices.

But what we are wishing is that these models will not have serial defects and all kinds of issues. This is basically something that I think, now, their board and investors are telling them, to just concentrate on delivering good turbines. The world needs a lot of wind down the road, and we certainly don't need two turbines that have not been tested before being sold to produce long-term electricity.

**Nelson Ng**

Thanks. No. That's good colour. And then just on that topic of just higher project costs, higher equipment costs. So you mentioned earlier that in Hawaii, the PPA price increase of about 56 percent was approved. I think you guys bid into that project like way back in—

**Michel Letellier**

Yeah.

**Nelson Ng**

—2018. Can you just give some colour or just big picture as to like how costs have changed since then? Is it relatively consistent with that 50 percent or 60 percent increase in the PPA price?

**Michel Letellier**

Yes. But probably a little bit more and interest rates have gone up. So even if it's a 50 percent price increase, it's bringing an okay return, but it's certainly not our most profitable project but, of course, it did help. But it shows you that in the lapse of time, prices have gone up quite a bit in some of those facilities, but we're happy to have that price increase. This is supporting an okay return but not a great return.

**Jean Trudel**

I think, somewhat, it demonstrates also is the willingness from public utilities to actually revisit the pricing, even when they were bid for an RFP, where they don't necessarily have to do this, but they want these megawatts, and they want to clean the grid and transition.

So we were seeing that type of relief from AECO, but also from Pac at Boswell. And it just shows, I think, the—it's something that we would have never seen before. But nowadays, utilities, I think, are listening in, and they accept to revisit pricing because they understand that reality has changed for pretty much everyone, including themselves as well.

**Michel Letellier**

Yeah. And they need the electricity down the road. I think that what I mentioned, the eye-opener for me and, I hope, for the rest of the industry and all the stakeholders, is that if we're serious about decarbonizing our industries in the world, we need to start today, and we need to do it fast, and we need a lot, a lot, a lot of wind, solar, and hydro going down that path.

**Nelson Ng**

And then I just have one last question. With the battery storage projects in Chile almost completed or one of the two completed, have you—I presume you've looked at North American battery

storage opportunities. Like are there any good opportunities to add batteries to existing sites in North America? I'm thinking Texas, specifically, or even other areas that we haven't thought of.

**Michel Letellier**

Well, Ontario is a good place with the RFPs because they're committing to pay for capacity payment. We're not a big player yet in Ontario. We've looked at Texas, but the problem in Texas, they don't pay for capacity, so pretty difficult. We don't want to invest in batteries and playing just merchant.

As I mentioned, it just happened that since we're early investors in Chile, we'll take advantage of the big swing until some other batteries will be built. But then the long-term strategy is to have them embedded in our technology. So they'll be supporting long-term PPAs.

This is what I think is smart investment in batteries, but we'll be on the lookout to have some projects to answer calls when utilities are willing to pay a fair price for the capacity. Because if you rely only on merchant, it's becoming quite challenging for establishing a stable long-term cash flow forecast on these investments.

So we will be looking towards places where we can capture the majority of our revenue through capacity payments or embedding these batteries into a portfolio or to supplement solar into certain calls. So this is where we're going to be focusing more. We will not be big players of putting batteries for merchant exposure.

**Nelson Ng**

Okay. That's great colour. Thanks. I'll leave it there.

**Michel Letellier**

Thanks, Nelson.

**Operator**

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

**Mark Jarvi** — CIBC

Yeah. Good morning. Thanks for providing the normalized payout. And I like that you adjusted for the power prices as well as the generation. So if you look forward with those projections, is that the right proxy for where you think you would be next year? Just sort of other puts and takes in terms of the year over year? Is something around an 80 percent payout ratio the target for 2024?

**Jean Trudel**

Yeah. Well, it's certainly a good proxy to use because it reflects our earnings power. That's the intent of the normalized feature. 2024 is a bit different than 2023. So I'll leave it at that because we don't—we're not in a position yet to give guidance for 2024.

But it just, I think—just it helps the Street to just revisit the notion that weather is something, and there's weather patterns now that have snuck up on us, especially in BC. But when things normalize themselves—and we believe in it, we believe that, eventually, we'll revert back to the mean, especially because we have 85 assets, so the diversification effect should come back and help. So yes, I guess you can certainly put that in the mix and use it as a proxy or as a good—

**Mark Jarvi**

Okay. And when do you guys think you'll be in a position to update growth targets and provide the outlook for 2024 and beyond?

**Michel Letellier**

That's a good question that I don't want to dodge that question. But given the great opportunity that we have in all our markets, especially in Quebec, we just want to be patient and absorb our strategy to come back to you into a more in light or insight.

We're going to be also sitting down, as I mentioned, with Hydro-Québec, trying to understand how we can help with, certainly, some, our First Nations partners into this endeavour that they just announced. So we'll take our time, guys. And don't read into this that we don't know where we're going. We know where we're going.

It's just that there's tremendous opportunity. We just want to make sure that we are updating our strategy in the right fashion and communicate it to you.

I think that what Jean is saying, yes, you can take the normalized and extend it to 2024. You won't be that wrong. I think that also, just an update—I'm surprised that you haven't asked, guys—but our fourth quarter looks a lot better. It's still early in the quarter, but BC's back. The forecast for rain for November is great. We have had a good October month, and November looks really good in terms of production of hydro in BC. I don't know about December but, so far this quarter, seems to be pretty good for BC hydro production.

So I think that as Jean is saying, what we didn't understand in the last few quarters is, given our great diversification, we've been hit hard in some cases. We're still thinking that diversification of technology and geography is the right strategy in order to have less volatility in terms of production. And we'll certainly continue to deploy that strategy going forward and be prudent, also, in establishing long-term forecasts and try to take into consideration all the new input that we can get in terms of potential weather pattern change going forward. But like I said, I think that the strategy of diversification is the way to go.

**Mark Jarvi**

Okay. And just last question for me. Jean, did I hear you say that you'll essentially have all your floating-rate debt exposure put away once you're done with these financings? Is it the expectation that

your credit facility will be, essentially, fully repaid once you're done the debt financings and, obviously, with the Crédit Agricole proceeds?

**Jean Trudel**

Yeah. Not fully—

**Mark Jarvi**

Or do you think it will be a balanced bill? Yeah?

**Jean Trudel**

Yeah. Not fully repaid, of course, but there will be a remaining balance. But that remaining balance, we have hedging products in place. So right now, the portion on the revolving facility that is unhedged would essentially disappear.

**Mark Jarvi**

And on the hedged portion of the revolver credit facility, what would be the effective interest rate today on that piece?

**Jean Trudel**

That's a good question. It's probably around 4 percent, I would say, like the hedge portion.

**Mark Jarvi**

Okay. So much lower?

**Jean Trudel**

Yeah.

**Mark Jarvi**

Okay. Thanks.

**Jean Trudel**

Yeah. Or 4.5 percent.

**Operator**

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

**Michel Letellier**

Hello, Ben.

**Ben Pham — BMO**

Hi. Thanks. Good morning. Hey. Good morning.

**Michel Letellier**

Good morning.

**Ben Pham**

I'm not sure if you mentioned this in the beginning because I missed the first few minutes. Can you talk about the dividend sustainability from your perspective? And is there any conditions that you may have to relook at the dividend?

**Michel Letellier**

This is—no, we haven't mentioned that, Ben. As you always—again, I don't want to dodge that question. But I think that this is something that the board has a restriction on.

We are looking in all our possibilities of cost allocation. Dividend is not the first thing that we would look into to raise capital tomorrow. But obviously, we're seeing great opportunity going forward. As we mentioned, we have a lot of initiative to reduce our need to go into issuing stock. We have been recycling assets. We have undergoing some refinancing activities.

So we don't need to raise capital in the next two, three years to fund our portfolio. So I would keep it in that. But like I said, we are always looking into cost allocation optimization. And we have, of course, a great opportunity going forward. So I would leave it that way.

I think that Jean has shown you, also, that on a normalized basis, the dividend is well covered. And be mindful also that in our calculation or our budget, we are putting about \$40 million in the development activities, prospect activities. This is already built in, in our budget for next year. And we've been investing, well, on the basis of close to \$30 million this year.

So we can support both the dividend and our prospective activities. But I think that we always consider all the capital allocations available to us.

#### **Ben Pham**

Okay. And then, maybe just to follow up on that then, I know you talked about the payout ratio improving, and let's say it's 80 percent, and that seems close to your target 75 percent, I believe. Do you think that's the right payout ratio in this environment, where it looks like you're still going to ramp up growth activities, and interest rates are rising, and you have to manage the volatility and resource conditions? Is 75 percent the right target to go to?

#### **Michel Letellier**

Well, the 75 percent doesn't include our prospective expenses, so we can certainly try to improve on this. And you're right; there's great opportunities for us to deploy. I don't think interest rates will go higher, but that's my guess. So I think that, hopefully, we have seen the peak of interest rate movement, but things can be volatile in this world today, but I think that we've seen the worst.

And again, I would like to think about creation of value for the shareholders. What is the best for creating value for our shareholders going forward? It will always depend on how successful we are also in



securing projects. When you have good projects, getting the capital is not a big issue. Usually, there's all kinds of funds that are chasing good investments in green infrastructure like we are.

So for the time being, we're focusing on creating value for our shareholders in our prospective activities, securing long-term PPAs with good margins so that we can generate accretive cash flow per share to our shareholders.

**Ben Pham**

Can I just sneak one more in? You mentioned capital allocation, and you also mentioned some of the returns you're targeting. It used to be 8 percent to 9 percent, and then now it's 10 percent or above. With yield at 8 percent, though, I don't recall your stock ever being this depressed for some time. Like isn't it better just to buy back stock, meaningfully? Or is it more the Fitch rating that you need to solve first before looking at that?

**Michel Letellier**

Well, it could on the short term. Obviously, we think that the price of our stock is depressed and doesn't represent the value of the—intrinsic value of the portfolio.

On the other hand, we want to create value on the long term, and the opportunity and the window of opportunity to secure long-term PPAs are now. If we want to make sure that we have a good long-term PPA pipeline in our portfolio for delivering projects in '27, '28, '29, we have to take that opportunity, and that's how we are going to focus.

So I would love to be able to buy our stock at \$9, but I think that on the long-term basis, we are going to use our liquidity wisely. The main focus, I repeat, is to grow profitably from our own pipeline of development. And like I said, there's huge opportunities in the four markets that we're operating in.

**Ben Pham**

Okay. Understood. Thank you.

**Michel Letellier**

Thanks.

**Operator**

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

**John Mould — TD Securities**

Hi. Good morning. Just one question. I wanted to ask about investment in Quebec in the context of your existing wind fleet. I think the first PPA, I think at Baie-des-Sables, expires in about three years, and then L'Anse-à-Valleau follows the next one. What kind of recontracting process are you anticipating for your Quebec wind assets? And does this present a broader repowering opportunity? Or more of a short-term PPA extension?

**Michel Letellier**

Well, that's a very good question. Given the amount of energy Hydro-Québec needs, these projects are already embedded in the transmission system. We have initiated a discussion with Hydro-Québec. The goal that we have, I guess expressed, is to have a long, long-term vision on these sites. So how do we maximize the existing facility?

Mind you that we are operating these facilities ourselves, so we have very good knowledge and ability to maintain these wind farms. Just a small recall, we have a little bit over 400 units of 1.5G SLE on that fleet. We know them. We have been taking care of them.

So there's a big bunch of those that can be extended behind the initial 20 years, but we would love to be able to create value on a long-term basis with Hydro-Québec, having some kind of a hybrid system where we can take the existing facility or existing location and make the best of both worlds,

keeping some old machines running and then putting new technology, repowering some parts of the portfolio to maximize the existing footprint, and to create a long-term, sustainable forecast, cash flow for us, having the ability to phase these repowerings in sequences and, like I said, having the certainty of our output with Hydro-Québec.

But like I said, Hydro-Québec needs this type of project to be renewed and repowered over time. Like I said, again, they want to have 10,000 megawatts of new facility by 2035. They don't need to shut down some existing plant.

**Jean Trudel**

And to give you an appreciation, repowering with new technology today at some of these sites increases the power generated by 25 percent, 30 percent. So there's a great gain also for Hydro-Québec in terms of the energy that they could provide to the grid from these assets. So I think we're in a good position to actually hold these discussions and get the best outcome—

**Michel Letellier**

Definitely.

**Jean Trudel**

—with Hydro-Québec.

**Michel Letellier**

Yeah.

**John Mould**

Okay. Thanks for that context. That's great. I'll leave it there.

**Jean Trudel**

Thank you.

**Operator**

Ladies and gentlemen, if there are any additional questions at this time, please press \*, followed by the 1. As a reminder, if you are using a speakerphone, please lift the handset before pressing any keys.

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

**Michel Letellier**

Hi, Nick.

**Nick Boychuk — Cormark Securities**

Hey. Good morning, guys. Now that you've secured the debt package and tax equity financing for Boswell Springs and have gone through that whole process, can you just speak to the general availability of capital? Like how competitive it was from all of the sources and how many options you have to evaluate? Is it getting harder to source capital? Or are you still finding it to be a fluid market?

**Jean Trudel**

Yeah. That's a good question, Nick. So the market is actually pretty thin in terms of the available pool of capital for tax equity. Right? So they are—so we ran a process. We had several players that were excited about a project like Boswell.

I think it calls to strong sponsorships, strong PPA offtakers, and good technology, and experienced sponsors in the sense that we've done tax equity often now, so that was recognized. But at the same time, I mean, the pool is not that vast. Right?

And that's one of the constraints from following the IRA. It brings a lot of projects, a lot of products. But at the end of the day, this is going to be one area to look into and as long as interconnection, as you know. So interconnection and tax equity pool of capital are two constraints.

The goal is and here, we've also shown the market that we're bringing two new partners that didn't deal with us before. So that's great because it improves the capacity that we will have at Innergex to do this. So I think I'm confident that we can do it again. We have these relationships now, and we've proven that we can do it.

And it's a significant amount of capital as well, as you can see. So it's not a concern for us. But for the industry and to get to the goals that the IRA wants to achieve, it is a certain concern. The terms and conditions, obviously, are not easy. I mean, dealing with tax equity, I'm not going to say it's an easy thing.

I mean, it's an approach where they propose terms and conditions, and you try to make it work with you more than a real, true negotiated position. But there are some areas where they show flexibility, and they've accepted some of our proposals, and so we moved on.

**Michel Letellier**

I think, also, that an interesting development will be to see how the industry is coping with the transferability—

**Jean Trudel**

Yeah.

**Michel Letellier**

—of these tax equity and PTC certificates. That may broaden the market, and we're looking into this. We know that there are some brokers that are trying to pull some capital in order to answer the demand for future tax equity.

That was an interesting twist in the new version of those PTCs and ITCs. We have yet to see how liquid and efficient this will translate to.

**Jean Trudel**

Yeah. Well, it's just one year old. Right? So the IRA, I mean, people are getting their act together, like trying to get their head around that. But we see some transferability deals done. But for us, it was not the case yet because we didn't need it. But it's going to be interesting to see how it unfolds. And the good thing about the IRA is the previsibility of tax equity for 10 years. Right? So at least we are away from what it used to be.

Like there was a couple years boom and bust in the PTC market. So now, we have a visibility over 10 years, so that helps. So there's a few good elements but still the pool of capital needs to increase a bit more.

**Nick Boychuk**

Got it. Thank you. And does this same logic apply to the depth of the project finance market?

Or—

**Jean Trudel**

No.

**Nick Boychuk**

—are you finding more players there?

**Jean Trudel**

No, not more players, not more many players. It's a much more liquid market.

**Nick Boychuk**

Okay. Thanks. And obviously, I appreciate that growing projects organically is the priority, but have these challenges bled into other earlier-stage developers or maybe those who weren't as well

capitalized? Like are you seeing opportunities where you could potentially acquire other late-stage development assets—

**Michel Letellier**

This is the—

**Nick Boychuk**

—at more attractive terms now?

**Michel Letellier**

This is the area where we might still transact in M&A if we can find affordable opportunity to speed up our development or construction activities. Yeah. Of course, there's need here and there, and we'll be on the lookout. Not necessarily a huge deal, but some transaction might be interesting in order to speed up some projects so that we could have COD in '26 or even late '25.

**Nick Boychuk**

Got it. Thank you. And then just coming back to Nelson's question about the turbine supply, are you guys finding that suppliers are changing any of the terms? If they're trying to scale production, are they asking for deposits earlier in the process? Are they requiring longer lead times? Or giving preferential treatment to certain purchasers? Any change in their activity would be interesting to hear.

**Michel Letellier**

They're certainly wisening it up, hopefully, in the type of pricing they're giving. We have one characteristic if you remember also on there are some players that are more interested in staying in the O&M and versus the price they sell the turbine.

We have some flexibility down there for us being able, also, to operate facilities, so we can play a little bit that game of some manufacturers are less exposed to North America and they would rather

put, perhaps, a price on the turbine, but let us operate and provide some supervision and some spare parts. So we have a little bit more flexibility than maybe some other players that would not consider doing their own operation.

But like I said, we expect them to provide some price that they can sustain; same with the O&M. Like I said, I think we are very particular in our approach on O&M. If they're committing to do something on O&M, we have a very strong O&M agreement that we'd like to use, and if they don't want to do this, we can manage the operation by ourselves.

**Nick Boychuk**

Excellent. Thank you very much, guys.

**Michel Letellier**

Thanks.

**Jean Trudel**

Thank you, Nick.

**Operator**

Mrs. Vachon, there are no further questions at this time.

**Karine Vachon**

Thank you. Thank you, everyone. We'll be talking again in February. Have a nice day.

**Michel Letellier**

Thank you all. Thank you.

**Jean Trudel**

Thank you very much, everyone.

**Operator**



Ladies and gentlemen, you may now disconnect your lines.