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CANADIAN UTILITIES LIMITED

An **ATCO** Company

Canadian Utilities Limited

Third Quarter 2023 Results Conference Call Transcript

Date: Thursday, October 26, 2023

Time: 9:00 AM MT

Speakers: **Lawrence Gramson**, Director, Corporate Finance
Brian Shkrobot, Executive Vice President and Chief Financial Officer
Bob Myles, Chief Operating Officer, ATCO EnPower
Wayne Stensby, Chief Operating Officer, ATCO Energy Systems

Conference Call Participants:

Linda Ezergailis, TD Securities, Inc. – Managing Director
Rob Hope, Scotiabank – Director, Equity Research
Maurice Choy, RBC Capital Markets – Research Analyst
Mark Jarvi, CIBC Capital Markets – Research Analyst
Patrick Kenny, National Bank Financial – Managing Director
Ben Pham, BMO – Managing Director

Operator:

Welcome to the Third Quarter 2023 Results Conference Call for Canadian Utilities Limited.

As a reminder, all participants are in listen-only mode, and the conference is being recorded.

After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Mr. Lawrence Gramson, Director, Corporate Finance. Please go ahead, Mr. Gramson.

Lawrence Gramson:

Thank you. Good morning, everyone. We're pleased you could join us for Canadian Utilities' Third Quarter 2023 Conference Call.

With me today is Canadian Utilities' Executive Vice President and Chief Financial Officer, Brian Shkrobot, as well as ATCO EnPower's Chief Operating Officer, Bob Myles, and ATCO Energy Systems' Chief Operating Officer, Wayne Stensby.

Before we move into our formal agenda, I would like to take a moment to acknowledge the numerous traditional territories and homelands on which our global facilities are located. Today, we are speaking to you from our ATCO Park head office in Calgary, which is located in the Treaty 7 region. This is the ancestral territory of the Blackfoot Confederacy, comprised of the Siksika, Kainai and Piikani Nations, the Tsuut'ina Nation, and the Stoney Nakoda Nations, that include the Chiniki, Bearspaw and Goodstoney First Nations. The City of Calgary is also home to the Metis Nation of Alberta Region 3. We honour and respect the diverse history, languages, ceremonies, and culture of the Indigenous people who call these areas home.

Brian will begin today with some opening comments on our financial results and recent Company developments, including regulatory decisions. Following these prepared remarks, Brian, Bob, and Wayne will take questions from the investment community.

Please note that a replay of the conference call, a short supplementary presentation and a transcript will be available on our website at canaadianutilities.com and can be found in the Investors section under the heading Events and Presentations.

I'd like to remind you all that our remarks today will include forward-looking statements, which are subject to important risks and uncertainties. For more information on these risks and uncertainties, please see the reports filed by Canadian Utilities with the Canadian securities regulators.

Finally, I'd also like to point out that during this presentation we may refer to certain non-GAAP and other financial measures, such as total of segment measures, adjusted earnings, adjusted earnings per

share, and capital investments. These measures do not have a standardized meaning under IFRS and, as a result, they may not be comparable to similar measures presented in other entities.

Now, I'll turn the call over to Brian for his opening remarks.

Brian Shkrobot:

Thanks, Lawrence, and good morning, everyone. Thank you all very much for joining us today for our Third Quarter 2023 Conference Call.

Canadian Utilities achieved adjusted earnings of \$87 million, or \$0.32 per share, in the third quarter of this year, compared to \$120 million in the third quarter of last year.

As you know, we concluded a successful second cycle of performance-based regulation in our Alberta distribution utilities in 2022. 2023 is a single cost of service rebasing year, and in 2024, we will start the third cycle of performance-based regulation with final rebase rates. Performance-based regulation facilitates affordability, which is important to the long-term sustainability of the business, as the savings and efficiencies generated in the second PBR cycle are returned to customers through the rebasing process.

As expected, the impact of our Alberta distribution utilities rebasing resulted in lower year-over-year earnings in the third quarter. On its own, this rebasing contributed to a year-over-year decline in earnings of approximately \$17 million. This is a significant impact to 2023 earnings, but for anyone who has listened to our conference calls throughout last year and this year, this is not an unexpected trend. It is a direct result of the exceptional performance that we drove throughout our second PBR cycle and the savings and efficiencies that are now being returned to customers. As our Utility teams continue to work hard to find new efficiencies and drive down costs, we expect to see the earnings pressure associated with this rebasing begin to soften in the fourth quarter of this year.

Looking ahead to 2024, and beyond, within our Alberta utility businesses, I want to briefly touch on two key regulatory decisions received earlier this month.

First, the Alberta Utilities Commission, or AUC, released the parameters for Alberta's third performance-based regulation cycle, or PBR3, for short, which will be the framework in which our Alberta distribution utilities operate for the period between 2024 and 2028. Included in our MD&A for this quarter is a detailed breakdown of the differences and similarities between PBR3 and our outgoing PBR2 framework. At a high level, while PBR3 does include a tiered earnings sharing mechanism, we continue to believe that this framework will create opportunities for us to deliver strong outperformance and growth throughout the term, and importantly, this framework allows us to make investments needed to drive both efficiencies and long-term stability for our energy distribution systems in the province.

Also, in October, the AUC delivered its decision on the generic cost of capital, or GCOC for short, and the parameters for 2024, and beyond. As was signaled throughout the year, the Commission has adopted

the use of a formula for setting ROE, and this decision also reaffirmed equity thickness set at 37 per cent for the Alberta utilities. The established formula for ROE utilizes a base rate of 9 per cent and takes into account two variables to adjust this base rate: first, the changes in 30-year Government of Canada bond yields and changes in utility spreads. The Commission will update the ROE annually and issue the following year's ROE in November of the current year. Now, while the final 2024 ROE will still not be known until November of this year, current market data suggests an ROE in the range of 9 per cent to 9.2 per cent, up from the current rate of 8.5 per cent.

As we begin to operate under these new frameworks in 2024, we'll continue to apply the ownership principles that we have historically used to drive efficiencies and operation excellence across our businesses, and we expect this to drive continued outperformance and growth for our business. Importantly, the receipt of both of these critical regulatory decisions well in advance of the respective operating years further reinforces the strides we've seen in reducing regulatory lag in the province and providing prospectivity.

Moving on to our natural gas distribution business in Australia, we continue to see strong growth in key operating metrics, such as new connections, tariff rates and system volumes. The narrative for this business, however, remains focused on Australia's in-country inflation profile, which continues to contribute to year-over-year earnings pressure. As we alluded to in our second quarter 2023 conference call, it's important to remember that inflation in 2022 built rapidly in the second half of last year, with full year inflation reaching almost 8 per cent by the year end 2022. As a result of this building profile in the prior year, our third quarter 2022 earnings were exceptionally strong, creating a comparable that is difficult to compete with in 2023, as inflation levels began to moderate. This trend resulted in us reporting year-over-year decline of \$8 million for this business in the quarter. Similar to the messaging we delivered throughout this year, we continue to expect Q4 and full year earnings for this business to be lower than 2022, as the CPI trend continues to moderate in Australia. For added context, in-country estimates continue to suggest full year inflation in Australia between 4 per cent to 5 per cent, which is consistent with the in-market estimates from last quarter.

Now, before I move on to our ATCO EnPower businesses, I want to briefly touch on the capital investments we made in the third quarter. The third quarter saw us invest \$331 million in our business, with \$307 million of this spending being within our existing utilities. This ongoing utility investment ensures the continued generation of stable earnings and reliable cash flows, while also driving sustainable rate-based growth. The remaining capital was primarily related to our ongoing renewable generation initiatives at ATCO EnPower.

Moving on to ATCO EnPower business, we delivered adjusted earnings of \$9 million, compared to \$12 million for the same period last year. While our newly acquired, and recently completed, renewable assets contributed to earnings, lower demand in our natural gas storage business, timing of costs and seasonally low wind output, pressured earnings. As we continue to drive the numerous development processes already underway to completion and these assets begin to contribute additional earnings, we're confident that the earnings power of these assets will become more pronounced.

Now, moving to the development side of the discussion, it's been a busy quarter, and one highlighted by the creation and formalization of a number of key strategic partnerships that are paramount for us advancing growth strategy.

In September, we announced our partnership with the Chiniki and Goodstoney First Nations, which saw them become joint owners of the Deerfoot and Barlow solar facilities. Nurturing Indigenous partnerships that promote social and economic development has long been a hallmark of our method of operating, and we're proud to announce this agreement with our new partners. The Deerfoot and Barlow solar facilities are some of the largest solar installations in an urban setting in Western Canada, and I'm proud to say that our Barlow facility achieved full commercial operations in the second quarter of this year, and we expect our Deerfoot project to achieve the same in the fourth quarter of this year.

This month, we also announced a virtual power purchase agreement with Lafarge Canada, which will see them receive 100 per cent of the energy produced at our Empress solar facility. Again, we are proud to be at the forefront of the energy transition and providing solutions to help customers, like Lafarge, reduce their own carbon emissions, and it remains a key priority for us in our growth strategy. Agreements like this also align with our target of having approximately 75 per cent of the renewable generation portfolio contracted under long-term agreements with high-quality counterparties. This portfolio view to contractedness helps ensure a stable and secure cash flow stream for the long term, while ensuring we retain the needed flexibility to maximize value within the portfolio and to capture near-term economic benefits as they arise. For our Empress project, we expect to achieve full commercial operations in the fourth quarter of this year.

Looking ahead to our development pipeline, I think it's also valuable to briefly touch on the AUC's decision to pause approvals for the new renewable electricity generation projects until February of next year. First and foremost, this announcement does not impact our projects under construction, which are the upgrading of the Forty Mile Wind asset or the near-term development of our Forty Mile solar project. For our renewables development pipeline, more broadly, we continue to progress our near-term projects and our development timelines did not contemplate a need to file any new AUC applications in advance of the expected lifting of this moratorium in February next year. We also continue to be focused on developing the Forty Mile solar project and we do not expect project delays related to this government pause. I would say that, throughout this process, we've been working collaboratively with the AUC to ensure that the importance of developing these assets for the benefit of our province and its decarbonization goals is well understood.

Finally, we remain committed to our hydrogen project within Alberta's industrial heartland and continue to move development of that project forward. Since last quarter, we've actively re-engaged discussions with both financial strategic partners, along with the off-takers that are key to underwriting the business case on a project of this scale. We continue to believe that demand of this area exceeds the facility capacity. These negotiations are in advanced stages and we expect to be able to provide further clarity on timing and next steps in the coming months.

Now, on the topic of hydrogen, early this week, it was also announced that our ATCO Australia business was named a preferred partner in the delivery of the South Australian government's Hydrogen Jobs Plan. Under this plan, we'll work as part of a consortium with our partner to deliver a strategy and development program for a 250-MW hydrogen production facility, along with the 200-MW hydrogen-fuelled electricity generation facility and related hydrogen storage. While this project is in its early days, projects like this further cement our global hydrogen strategy and our position as leaders in the global transition to cleaner energy.

So, summing up, overall, our third quarter results were in line with our expectations for a rebasing year. The earnings pressures that we expected related to rebasing and Australian inflation were evident in the quarter, but we expect that this rebasing pressure to begin to ease in the fourth quarter.

Now, looking again ahead to 2024, our Alberta utilities now have prospectivity following the regulatory decisions on PBR3 and the GCOC that was received earlier this month. As I said in the past, no matter what the regulatory environment we operate in, we remain focused on driving exceptional results for all shareholders and position our businesses to maximize sustainable growth and earnings. I look forward to sharing our full 2023 performance and providing further updates on the progress of our numerous growth initiatives on our next call in early 2024.

That concludes my prepared remarks, but before we open the call to questions from the analyst community, I just want to give everyone a chance to hear from both Bob Myles on our ATCO EnPower business and Wayne Stensby on our ATCO Energy Systems business.

Bob, the ATCO EnPower business has made numerous strides in 2023 towards the achievement of its renewable generation and clean fuels growth objectives. In light of this progress, can you comment on the growth you're seeing in the business and where you expect things to go in the near term?

Bob Myles:

Thanks, Brian. It's hard to talk about where we're going without looking at what we've done in 2023. I'm proud to say that we have fully integrated the acquisition that we acquired earlier this year, the Suncor renewables acquisition. We have fully integrated our two wind assets, that are operating, so that's a great accomplishment. We've also pretty well completed all of the construction on our three solar projects here in Alberta, as you indicated a little earlier, so I think that was a great accomplishment, as well. The next project that we're pursuing right now is our Forty Mile solar project, you touched on that, and that's a 220-MW solar project, also in Alberta. That's fairly far along, we hope to make FID on that later this year or early into 2024. On the clean fuel side, you did indicate that we're progressing quite nicely on our hydrogen project, both domestically and with regards to exports. So, definitely a busy time right now, lots on the go.

Brian Shkrobot:

Thanks, Bob. A lot of great opportunities on the horizon, as you said, and it's exciting to see these initiatives convert to stronger earnings contributions.

Wayne, in a similar vein, the third quarter saw your ATCO Energy Systems business receive two key regulatory decisions: the general cost of capital and the formulation of the framework for the third PBR cycle. Now that you're back in Canada and refocused on our Canadian-based businesses for the utilities, can you comment on how you're thinking of ATCO Energy Systems businesses moving forward and what could we expect in the coming years?

Wayne Stensby:

Thanks, Brian, and let me start by just saying I'm very excited to be back and leading the utilities portfolio.

LUMA is in a good place, or a good position, with Juan Sacca stepping into the CEO role, and I'm very confident that the more than 3,500 hardworking women and men who are in Puerto Rico in LUMA will continue to build on the substantial early progress that we were all able to make.

As you say, and maybe a little closer to home here in Alberta, as you mentioned, a number of regulatory decisions have now been received. I look forward to working with our teams to build on what really is phenomenal progress that the utilities have made through the first two PBR cycles or periods in the distribution businesses, and also the strong progress in the transmission businesses. These past periods have yielded great efficiencies for our customers, and I see them as providing a very strong foundation as we now move to invest and perhaps get a little more oriented on growth to serve our customers' growing and evolving needs in the province.

Brian Shkrobot:

Thanks, Wayne. That's great insight, thank you.

We'll now turn the call back to Lawrence to bring us to the formal Q&A component of the call.

Lawrence Gramson:

Thank you, Brian. In the interest of time, we ask you to limit yourself to two questions. If you have additional questions, you're welcome to rejoin the queue. I'll now turn it over to the conference coordinator for questions.

Operator:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw from the question queue, please press star, then two.

The first question comes from Linda Ezergailis with TD Securities. Please go ahead.

Linda Ezergailis:

Thank you. I'm very interested to hear your updated thoughts on what sort of optimization and cost efficiencies you're working on so that your utilities, your distribution utilities can meet or beat any sort of productivity factors that they're working towards; and I guess the second part of that question is—we

are still seeing some inflationary pressures in various cost buckets and I'm just wondering, in your view, how well the inflation indices reflect your true underlying inflation or the recent mismatches, for better or for worse, on that front.

Brian Shkrobot:

Thanks, Linda, I appreciate your question. Yes, in terms of outperformance, as I've indicated on previous calls, we have a long track record of finding new and creative ways to drive down our costs for our customers, and we continue to see that throughout this year. Although we've had the expected rebasing, I would say that the teams have done a great job in the first part of 2023 to find some additional savings throughout our business, and that's throughout, whether it's through some tax efficiencies, whether it's through our operations. Of course, the wildfire also diverted some of our teams on to that response effort. So, overall, I guess I would kind of give guidance that we are confident that we can drive the continued efficiencies, as we mentioned, maybe it's in the 100- to 200-basis-point range for this year. Obviously, we'll have another resetting in PBR3 when we get into 2024, but for this year, the teams are doing extremely well.

In terms of inflationary pressures, I would say in the past we've done really well to kind of work with our vendors and suppliers to maintain our expected cost increases in line with kind of general inflation—it's been sometimes improved. We've had a little bit of delay over a period of time on some of our materials, especially some of our long leads, and we've just changed our practices going forward to make sure that we get well ahead of ordering long-term expected supplies for some of our projects. We did that on our solar facilities, getting ahead and ordering all the panels, so, Bob, as he mentioned, can hit those timelines. So, overall, I think we're not expecting any inflationary pressures that are outside of what we're seeing, I guess, generally in the market.

Linda Ezergailis:

Thank you, and maybe just moving to Australia, I'm just trying to understand kind of what the financial benefit might be on this hydrogen project, beyond just leveraging the learnings for future projects. Is there some sort of revenue model here or is it driving business through your existing assets? Can you comment on kind of what the end game is and the magnitude of any sort of economic participation given that—my understanding is the Australian government will own the facility?

Brian Shkrobot:

Yes, maybe I'll start and then I'll ask Bob to jump in here. First of all, I would just kind of comment that it's very early days, and, yes, we're very excited to work with the South Australian government on this project. It really sees kind of the benefit of kind of our outward approach to the hydrogen strategy globally and how we're recognized in the jurisdictions that we operate in. Again, it's too early to talk about the funding model and how big this project will be. I think that's part of this project, it's part of what we've been engaged to do, is to provide that preliminary view, but I do think it's great for our business and kind of builds on some of the work that we've been doing across our various business units.

Maybe, Bob, I'll turn it over to you to maybe provide some further colour.

Bob Myles:

Yes, and maybe the only other thing—by the way, hi, Linda—the only thing I'd add to what Brian said is this project, I would say, could be one of three things. It could be engineering, procurement, construction; it could be engineering, procurement, construction and operation; and there's the potential of equity ownership, as well. As Brian indicated, it is early days, but all three of those scenarios have all been discussed with the South Australian government, as well.

Linda Ezergailis:

Thank you. I appreciate the context.

Operator:

The next question comes from Rob Hope with Scotiabank. Please go ahead.

Rob Hope:

Good morning, everyone. I wanted to circle back on the ATCO EnPower business. It's been a little choppy here in terms of valuations, the pause, and on the Q2 call, you had talked about the potential for looking at other financing opportunities for this business, whether it be a number of outcomes there. So, just wonder if you could give us an update on how you're thinking about financing the renewable power business.

Brian Shkrobot:

Yes, and maybe I'll start off on the financing side. Yes, as we talked about in the second quarter, we're looking at the long term, how we're going to fund the business, and we must consider how we best optimize the value for CU shareholders at each step of the way. In the immediate term, our funding needs are tied to the continued development of our renewables pipelines and the pre-FID hydrogen work. To support this need, we're continuing to consider partnership options, particularly in the short term. Longer term, though, we'll continue to evaluate both private and public sources of funding for the continued growth of the Company. With all the strategic decisions that we make, we'll continue to evaluate these opportunities through the lens of shareholder value creation and the long-term growth and stability of this business.

Any further comments, Bob, you want to make?

Bob Myles:

Rob, the other thing is on the larger projects at ATCO EnPower, specifically, the large hydrogen projects, it's not just a matter of the financing, we're also looking at who we partner with strategically with regards to strong operating partners, strong off-take partners, and with that, they also bring the financing side, as well. That's all very much part of the strategy as we build out ATCO EnPower.

Rob Hope:

I appreciate that. Then, maybe more broadly, with the strong balance sheet, you were able to access capital a little over a month ago at attractive rates. As well as kind of the choppiness we're seeing in the market, have you thought—or kind of what are your views on acquiring assets a little counter-cyclically in this environment and using your balance sheet?

Brian Shkrobot:

Yes, thanks, Rob. Yes, I'd say that we're constantly evaluating opportunities, whether it's through M&A or other parts of the business, that doesn't change. Yes, there's some volatility in the cycle right now, and appreciate where the capital markets are today, but, yes, I'd say that we're constantly evaluating all of the aspects of our business in geographical locations, opportunities, and if there is something out there that is attractive and accretive, we'll certainly look at it.

Rob Hope:

Thank you.

Operator:

The next question comes from Maurice Choy with RBC Capital Markets. Please go ahead.

Maurice, your line is open.

Maurice Choy:

Sorry about that. I muted myself. Good morning, everyone. I just wanted to follow up on ATCO EnPower. Sorry if I missed this, but when are we expecting to provide—when are we expecting to hear a meaningful update on this, if not a decision. Also, I know that you've been doing some market feedback on the potential options on this, so any thoughts on what you've been hearing, recognizing, obviously, as my colleague mentioned, the market is choppy?

Brian Shkrobot:

Sorry, Maurice, just to clarify, update on some of our projects or update on ...

Maurice Choy:

EnPower, sorry.

Brian Shkrobot:

... and how we look to fund those?

Maurice Choy:

EnPower's potential separation, specifically.

Brian Shkrobot:

Oh, I see. Okay.

Maurice Choy:

Recognizing how you responded to the previous question, but timing-wise, when can we have clarity on it?

Brian Shkrobot:

Yes, like, you know, in terms of timing, again, we're not rushing into anything. We said that we would evaluate—as we kind of went through the previous question. As we look to build out and some of these bigger projects come online, we will evaluate all options. Where the capital markets are today, as Bob kind of alluded to, certainly partnerships is kind of a key, probably, near-term solution and focus, but over the long term, as the previous comment on the quarter, we're going to look at all opportunities and alternatives, including the public and private markets.

Maurice Choy:

Just to be clear, as Bob mentioned, partnerships on the hydrogen projects, specifically, when it comes to the entire ATCO EnPower entity, are you suggesting that this a partnership for the entity or more like on a project-by-project basis?

Brian Shkrobot:

It's more of a project-by-project basis, Maurice, and, again, like, we're going to evaluate all those as those come up. You've seen us just announce a partnership on some of our renewables, and so that's kind of evidence of what we're looking at.

Maurice Choy:

So, is it fair to say that ATCO EnPower, at least from a base case, will remain within CU and would see partnerships from this point onwards?

Brian Shkrobot:

Again, listen, we will evaluate all opportunities, but for now, yes, we're considering the partnerships, and as we grow out the business, I'm not going to suggest that any options are not on the table, but certainly we see partnerships within CU as being a meaningful way to fund near-term projects of this nature.

Maurice Choy:

Great that makes sense. Maybe I just want to finish off on the government's review of the electricity pricing market, including reducing T&D costs. I know on the last call you mentioned that you weren't expecting anything negative from this review, but, obviously, cost of capital is higher, and then the ROE now looks to rise next year. So, as you look at the cost structure for T&D for customer bills, where would you see costs coming down for the government to achieve this T&D cost reduction?

Brian Shkrobot:

Yes, it's a great question, and I think, as I alluded to in prior calls, what we can directly do in our business is what we try to focus on. Certainly, as we've kind of communicated, we've worked really hard to drive down our costs for our customers, and you've seen that rate reduction both in our transmission

business and our distribution business with the PBR rebasing. So, that is a meaningful thing that we can do as a utility company. That said, we continue to work with the ISO in terms of project designs and market studies, to how we best source and do the right pricing to get the most efficient way of connecting new generation, but also how do we ensure that our distribution and transmission grids can continue to provide the safe and reliability of the energy delivery.

I don't know, Wayne, anything else that you'd want to offer?

Wayne Stensby:

Yes, maybe what I would kind of just add, Brian, is we completely recognize the challenges of affordability here in Alberta and across Canada, right, so we're well aware of that. We empathize with our customers, as they have seen cost increases. The costs on the bill is, of course, the sum of the transmission and distribution are the delivery cost and the generation cost, and as you would recognize, there's been some volatility in all of that in the last few months, and even years. As Brian indicated, as we move forward, I think our emphasis is going to be on how do we continue to invest in those networks and bring reliability improvements and climate adaptation and resiliency improvements that our customers are really demanding. So, I see it as far more than just a cost conversation, and I think that's very important in our role as we have these distribution and transmission utilities here in Alberta and our role as a broader energy provider.

Maurice Choy:

Great. Thanks for the colour.

Operator:

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

Mark Jarvi:

Yes, thanks. Good morning, everyone. Just coming to the decisions, the formula of the ROE and the PBR parameters, including an earnings sharing mechanism, how would you think that all shakes out? Obviously, the base ROE is going higher, but you then move into an earnings sharing mechanism on about 200 basis points. Do you think the all-in earned ROE changes at all under the new construct relative to what you were operating under previously?

Brian Shkrobot:

Yes, thanks, Mark. Yes, great question. Overall, I think we're—in terms of the generic cost of capital decision, as kind of expected, the Commission moved to a formula, with the goal of reducing regulatory lag. That said, we're thankful that the base ROE has gone up. That said, it's probably below what we'd like it to be, but it's still going in the right direction.

In terms of the earnings sharing mechanism, at least the first 200 basis points is on the count of shareholders, and above that, there starts to becoming a sharing, which I think is a balance that the Commission struck at the end of the day, providing a supportive framework—I'm sorry, I'm kind of mixing that with the PBR, but I do think they're both tied in terms of the ability to share and having a

proper ROE. So, I do think that it's kind of in line with what we expected, and I think as a supportive framework, I think, on the PBR side, in terms of having the formula the way approved it is, having some capital tracker mechanisms allow us to pursue decarbonization opportunities is supportive, and they even put in some creative mechanism on a pilot project to say if we could—because if we have a capital versus an O&M decision to make, to the extent that we could prove that it's to the benefit of customers to have an O&M solution, that we're allowed to earn on that program.

So, I think the Commission has taken a positive step forward in its decisions, and, yes, I think we're—now that we have the rules known—and, again, go back to our previous tried and true ability to find ways to generate value for our shareholders throughout any PBR or generic cost of capital framework.

Mark Jarvi:

Just to follow up on the comments you made earlier about the annual updates, you've gotten the clarity that distribution utilities operate under PBR, that there'll be an annual ROE update? Because, I know in some jurisdictions, they set it at the beginning of the five-year window and then you kind of operate under that base ROE. I guess, if you do have annual updates, does that make it harder to manage through PBR, in terms of how you think about timing and working through cost savings through the five-year period?

Brian Shkrobot:

No. In terms of the annual update for the generic cost of capital rate flowing through, is that what you're referring to, Mark?

Mark Jarvi:

Yes, yes.

Brian Shkrobot:

No, that's not—it's doesn't change things. In terms of our normal compensation for inflation, that is a typical thing through a PBR framework, but the update to our ROEs, instead of being flat, yes, they will change maybe up or maybe down, depending on kind of online parameters, those two, but I don't think it's going to materially change throughout the five-year period. It will be set November each year and, like I said in my opening remarks, we expect that to be north of 9 per cent for 2024.

Mark Jarvi:

Okay, and then just one last question for me. As you look into the medium term, particularly your Alberta utilities, are you seeing anything change in terms of the outlook, demand, regional needs, technology changes, anything sort of factoring into what you think the rate base outlook looks like for any of the utilities in Alberta, maybe on a three- to five-year outlook?

Brian Shkrobot:

Yes, maybe I'll let Wayne kind of answer this one. I think he kind of hit it off in terms of what our outlook looks like. Certainly, all of those factors are something that are currently on our radar. Maybe, Wayne, do you want to get your views on that?

Wayne Stensby:

Yes, and I think you hit the kind of key elements in a way, and I'm almost building on the affordability conversation from a couple of questions ago, but we are seeing strong demand growth from our customers across the province, the Alberta economy is doing well, and in an inflationary situation, right? So, we are seeing customer growth, we are seeing, I would say, ever increasing needs from our customers or wants from our customers from their utilities, and so we are building strong plans as we move forward to invest and support those growing customer needs and growing numbers of customers. We see the next three to five years as very positive for Alberta utilities.

Mark Jarvi:

Is that expected to manifest itself into higher rate-based growth when you look out maybe on a five-year horizon?

Wayne Stensby:

Yes.

Mark Jarvi:

Okay, I'll leave it there. Thanks.

Operator:

The next question comes from Patrick Kenny with National Bank Financial. Please go ahead.

Patrick Kenny:

Thank you. Good morning. You guys touched on LUMA in your prepared remarks, but any update or guidance on when we might see a transition from the supplemental to the O&M agreement?

Brian Shkrobot:

I'll pass that one on to Wayne.

Wayne Stensby:

Good morning, Patrick. Yes, it is the question we've been facing, I suppose, for two or three years at this point in time, but maybe I can offer you a little more kind of colour there. It's in the public markets that the court dates or the confirmation hearing dates have been set for the first two weeks of March of next year. It's possible those are delayed, but I think it's highly unlikely at this point in time. It's a U.S. federal bankruptcy court, and so the judge will hold those confirmation hearings. If you follow then kind of, you know, conventional thinking, from March, I think that plan will take—there'll have to be the hearing, or the trial, I guess, then the evidence, then the eventual ruling. That will probably take you all the way till the middle of next year, and then there's the implementation of a plan. On broad strokes, we would imagine that PREPA emerges from bankruptcy perhaps towards the end of 2024.

That said, as you know, LUMA extended the supplemental period with no deadline roughly a year ago, and so if it takes longer, it takes longer. I think our real focus, you know, organizationally, is to continue to build on what we were hired to do, which is fundamentally transform the electric system in Puerto

Rico and rebuild and improve that system, and so that's where, I would tell you, the vast majority of the focus is as we follow through the bankruptcy.

Patrick Kenny:

Great colour.

Wayne Stensby:

I guess I should have added, of course, as you know, once we move out of the supplemental period, we move into the 15-year term of the contract.

Patrick Kenny:

Right, okay, that's perfect, thank you for the update, and then maybe just shifting gears to the balance sheet, Brian, you issued some 30-year paper late in the quarter. Can you just provide maybe an update on your funding needs for the remainder of the year and maybe into 2024? Are there any other upcoming maturities or CapEx spend that you might be able to prefund and maybe take some additional market risk off the table?

Brian Shkrobot:

Yes, thanks, Patrick, for the question. Yes, you mentioned our issue that we did early in the year and very happy with the outcome of that debt issue, got very favourable rates and well over-subscribed. It's also kind of the first issue since withdrawing from the reins from S&P. In terms of the rest of the year, no, we don't expect to have to access the market for the remaining of this year, and into next year, I'd say that we have definitely some flexibility there. At least on the CU Inc. side, we expect to be probably around the same range of this year for our needs, but with some flexibility.

Patrick Kenny:

Got it, thanks for that. I'll leave it there, guys.

Operator:

Once again, anyone on the conference call who wishes to ask a question may press star, one at this time.

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

Ben Pham:

Good morning. I wanted to go back to the rebasing. I know you mentioned that it's tracking in line with your expectations, the rebase and where earnings are going for 2023. I wanted to reconcile that with some of your comments earlier in the year. I think you mentioned Q3 was going to be a peak rebase and then you would see growth in Q4. Is that still the trend? Because, it looks like Q3 ended up not being as bad as Q2.

Brian Shkrobot:

Yes, no, thanks, Ben, for the comments. I'd say, generality, in terms of the seasonality, that's typically the case, and I would say that there's—that said, there's always some timing costs and initiatives that

happen throughout the year, and I would say for the third quarter here, we did have some timing, especially in our electric distribution business, timing of some costs, which probably improved us versus where kind of above the normal seasonality would be. So, I guess, yes, overall, we would expect, but with that kind of proviso that we do have, on a typical year, some timing of operating issues from one year to the next, and whether it's us working on wildfire restoration, that changes some of our timing of our O&M costs, those are kind of examples of what could, from a typical year-over-year comparison, can cause some noise.

Ben Pham:

That Q3 timing and some of that maintenance work, does that push into Q4 then and maybe you won't see growth year-over-year?

Brian Shkrobot:

Yes, I think I'd say we're still back in line with what we expect when we communicated this. We know we're coming off a 2022 outperformance, and I think you've seen our filings and the significant outperformance we achieved. We do expect to come back down to kind of that 100- to 200-basis-point range by the end of the year. I do see a little bit of that bursting into Q4, but, again, I do think it's in line with the guidance that we've already provided into that 100- to 200-basis-point range.

Ben Pham:

Understood, and I know the second question is on CapEx. I mean, no news means there's no kind of change in that utility CapEx budget, but I wanted to check. There was some reference to maybe rate-based growth doing better than expected. Is that a reference to beyond your guidance timeframe?

Brian Shkrobot:

Yes, that's a great question, Ben, and I think Wayne kind of alluded to it in kind of his comments. Like, we do see some significant growth in our jurisdictions here, and certainly being mindful of the affordability of our customers, but we are seeing pressures from the growth and evolving demands from our customers, and also we recognize there's a little bit of a pause on the renewables, but the reality is we do need to connect and make sure that we continue to provide a network which has safe and reliable energy and serving our needs. I think this is evolving. We expect to give an update. Typically, we provide a further update at the end of the year, so in February, we'll provide kind of more refined guidance in terms of what our expectations and outlook is for the next, say, three to five years.

Ben Pham:

That's great. Thank you.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Lawrence Gramson for any closing remarks.

Lawrence Gramson:

Thank you, Operator, and thank you all for participating today. We appreciate your interest in Canadian Utilities and we look forward to speaking with you again soon.

Operator:

This concludes today's conference call, you may disconnect your lines. Thank you for participating and have a pleasant day.