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CANADIAN UTILITIES LIMITED
An ATCO Company

Canadian Utilities Limited
Year End 2020 Results
Conference Call Transcript

Date: **Thursday, February 25, 2021**

Time: **9:00 AM MT**

Speakers:

Myles Dougan - Director, Investor Relations & External Disclosure

Dennis DeChamplain - Executive Vice President and Chief Financial Officer

Conference Call Participants:

Linda Ezergailis TD Securities, Inc. – Managing Director

Mark Jarvi CIBC Capital Markets – Managing Director

Benjamin Pham BMO Capital Markets – Senior Analyst

Patrick Kenny National Bank Financial – Managing Director

Andrew Kuske Credit Suisse – Managing Director

Maurice Choy RBC Capital Markets – Research Analyst

Elias Foscolos Industrial Alliance Securities – Research Analyst

Operator:
Welcome to the Year End 2020 Results Conference Call for Canadian Utilities Limited.

I would now like to turn the conference over to Mr. Myles Dougan, Director, Investor Relations and External Disclosure. Please go ahead, Mr. Dougan.

Myles Dougan:
Thank you, Anastasia, and good morning, everyone. We're pleased you could join us for our Fourth Quarter 2020 Conference Call.

With me today is Executive Vice President and Chief Financial Officer, Dennis DeChamplain. Dennis will begin today with some opening comments on recent Company developments and our financial results. Following his prepared remarks, we will take questions from the investment community.

Please note that a replay of the conference call and a transcript will be available on our website at canadianutilities.com and can be found in the Investor section under the heading Events and Presentations.

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

Finally, I'd also like to point out that, during this presentation, we may refer to certain non-GAAP measures such as adjusted earnings, adjusted earnings per share, funds generated by operations, and capital investment. These measures do not have any 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 Dennis for his opening remarks.

Dennis DeChamplain:
Thanks, Myles, and good morning, everyone. Thank you all very much for joining us today on our Fourth Quarter 2020 Conference Call.

I'd like to begin by talking about our performance in 2020, then our capital investment outlook, and lastly, our sustainable growth direction for the future.

As most of you are aware, our investments are largely focused on regulated utilities and long-term contracted businesses with strong counterparties. Over the years, we've created a resilient investment portfolio, able to withstand turbulent economic conditions, and 2020 sure had its share of turbulence.

Our Australian natural gas utility entered a regulatory reset year with a much lower approved return on equity, and severe financial headwinds as a result of a slowing economy due to the COVID-19 pandemic. We also lowered our 2020 capital investments in the year by $300 million as a response to the slowing economic activity.

While we experienced a softening in our capital investments this year and slowing activity in some of our businesses, overall, Canadian Utilities continued to generate strong earnings and cash flows. Overall, the slowing global economic activity did not have a significant impact on our operations and financial performance.

On a normalized basis, excluding the foregone earnings from the businesses we sold in 2019, Canadian Utilities' earnings in 2020 were $535 million, or $14 million higher compared to 2019. Our resilient financial performance is a testament to our business model, as well as our people, who remain focused on continuing to deliver reliable service to our customers. They've faced considerable operational challenges of working in these new pandemic conditions, with courage and dedication, and performed in an exemplary fashion.

Our 2020 earnings were buoyed by initial earnings from the Puerto Rico contract that I'll talk about more in a minute, as well as continued excellent performance from our distribution utilities, operating in their third year of PBR II's five-year plan. Their performance, along with continued improvements in our cost structure across all of our businesses, were able to overcome the headwinds experienced in Australia, and electricity transmission, which transitioned from capital to operating activities on Alberta PowerLine.

Our focus on operational excellence has been a key driver in creating a more innovative culture that has empowered our people to find new and more meaningful ways to meet the needs of our customers. In doing so, we have continued to improve our overall cost structure, thereby providing premium returns on equity for our investors and long-term benefits for our customers.

That commitment was a key factor in our successful 2020 bid for a 15-year contract to operate Puerto Rico's electricity transmission and distribution utility. This fits with Canadian Utilities' growth strategy in the US and Latin America and allows us to bring our core competencies of operational excellence and exceptional customer service for the benefit of Puerto Rico.

Going forward in our Australia and our Alberta Utilities, we expect to invest $3.2 billion in capital growth projects over the next three years. This capital investment is expected to generate growth in our utility asset base of approximately 2 per cent per year, which is a leading indicator of the growth trend of our

Utilities. Our regulated utility operations are our largest contributor to earnings and will remain so for many years to come.

Regarding developments on the regulatory front, in October, the Alberta Utilities Commission issued a decision on the Generic Cost of Capital, or "GCOC", approving the current 8.5 per cent return on equity on a capital structure of 37 per cent equity on a final basis for 2021.
The AUC commenced a new GCOC process in early 2021 to address the ROE and equity thickness for 2022 and beyond. Our hope, and quite frankly expectation, is that this will be resolved this year, so we maintain prospectivity and avoid regulatory lag heading into 2022.

We are waiting on two regulatory decisions addressing our Electricity Transmission and Natural Gas Transmission general rate applications. We expect decisions on both proceedings later in the first quarter of 2021.

Natural Gas Transmission also entered into an agreement in September to acquire 100 kilometres of the Pioneer Pipeline here in Alberta for a net purchase price of $200 million. The transaction is subject to regulatory approvals by the AUC and the Alberta Energy Regulator, which are expected in the second quarter of 2021.

While we continue to invest in our core utility businesses to generate stable earnings and reliable cash flows, we recognize that a collaborative and long-term approach to minimizing our environmental footprint is vital. We continue to explore new and more efficient ways to generate, distribute, and conserve energy.

Most notably, in 2019, we divested our entire Canadian fossil fuel-based electricity generation business to eliminate coal-fired electricity from our portfolio and significantly reduced our greenhouse gas emissions by almost 90 per cent from 2019 to 2020. We see a shift to cleaner energy, and we are well-positioned to participate in the development of clean fuels, such as hydrogen, and renewable energy infrastructure investment.

In Australia, we are focused on the shift to renewables. We also believe that we can have a meaningful role in the transmission and interconnection of renewable energy to the grid as Australia expands its renewable generation capacity.

In Latin America, we are focused on energy infrastructure, particularly renewable generation.

We also continue to pursue various other business development opportunities with long-term potential here in our home market of Alberta, as well as in our other target markets.

To achieve this growth strategy, we are focused on three aspects:

> First, we will continue investing in our rate-regulated business to generate stable and reliable cash flow and adapt to changing utility customer preferences;
>
> Second, we will drive forward renewables and clean fuels as clean growth priorities to supplement our base regulated business; and
>
> Third, we may use smaller-scale acquisitions to accelerate growth opportunistically, but we do not intend to invest in transformational M&A in the near term.

That concludes my prepared remarks. I'll turn the call back over to Myles.

Myles Dougan:
Well, thanks very much, Dennis, and now we'll turn the call over to the Conference Coordinator for investor questions.

Operator:
Thank you. The first question comes from Linda Ezergailis with TD Securities. Please go ahead.

Linda Ezergailis:
Thank you. Congratulations for navigating a challenging year very successfully.

I'm wondering if you can help us understand the decision-making behind the Master Services Agreement with IBM, the one-time charge to terminate your prior agreement with your current vendor, and how that might translate into innovative new efficiencies, process changes, and when and where we might see that in your operations.

Dennis DeChamplain:
Thank you, Linda.

Yes, the decision to terminate the contract with Wipro was definitely not done lightly. We really do believe that this new arrangement with IBM is the right path to meet the needs of our business moving forward. We really do require an IT solution that provides a platform for growth and innovation, increasing our use of Cloud Computing, Artificial Intelligence, as well as automation. That's the strategic rationale behind the switch. One-time charge you see in the accounts backed out for adjusted earnings.

In terms of the innovation question and timeframe, there is a six-month transition from Wipro over to IBM that commenced February 1. IBM, in essence, will get the keys to the operating systems in August of this year, that's the plan. When do we expect to see performance from that change in vendor? We really do believe that the acceleration to Cloud Computing will result in tangible benefits. It'll be hard to see them in 2021, but they should start to appear in 2022.

Linda Ezergailis:
That's helpful context, thank you.

Switching over to your utility distribution businesses. Can you talk about, now that you've seen a full year, how the industrial and commercial customer base volumes were impacted by the pandemic, and whether or not that might trigger some sort of mitigation through filing for a Z-factor event?

Dennis DeChamplain:
Yes, great question, Linda.

We do have those volumes in the AIF. I don't have them at my fingertips. We've been saying all along, and there's really no change on gas distribution. We don't expect Z-factor on the electricity side. We are bumping our heads right up to that, it's about a $3.5 million trigger for Z-factor, but where we stand right now, it doesn't look like we'll be filing a Z-factor. There's no recovery in 2020 associated with that. I'm going to say it's doubtful that we'll be applying for any Z-factor for Electricity Distribution. They haven't completed the final analysis yet, but in any event, it would be relatively small dollars.

Those volumes really hung in there on the Electricity Distribution side. Maybe not surprising, but we did think that the capital would come off more than what it did, but we've continued to see customers come to us looking for hook-up to the electricity system. We really did weather that COVID, I'll say waves one and two, extremely well.

Linda Ezergailis:
Thank you.

Just as another follow-up question, looking at the next couple of years, I see that your incentive fees kind of escalate over your LUMA Energy contract. I'm wondering what the performance hurdles are to get to the maximum amount. And what is the performance hurdle to get any amount, I guess, the bookends of when you might realize an incentive and when you might book it?

Dennis DeChamplain:
Yes. These performance metrics, they're all outlined in the contract. The parameters, however, have not been finalized yet. We just lodged our filings. We call them the big three filings with the Puerto Rico Electricity Bureau, or the PREB, there. One of them is initial budgets; we're applying for no rate increase. The next one is on a system remediation plan that we have for the island's electricity system. And the

third one is on those performance metrics, where we've submitted those amounts that we believe where the bar should be set.

That's going to go through approximately a 90-day process, and then we'll be in a better position to be able to answer the question as to the quantum and timing for any incentive fees coming out of that contract. The regulatory decision from the PREB, and they're on their 90-day clock now, is a condition precedent for coming out of the transition timeline and moving into the contract years.

Linda Ezergailis:
That's helpful context, thank you. I'll jump back in the queue.

Dennis DeChamplain:
Thanks, Linda.

Operator:
The next question comes from Mark Jarvi with CIBC. Please go ahead.

Mark Jarvi:
Great, thanks. Good morning, everyone.

I wanted to talk about Australia. Maybe Dennis, you can comment a little bit about that Pumped Hydro project that you seem to be involved in now, and maybe just dovetail that with your comments around looking at opportunities around electric transmission in Australia, in terms of what that size, scope, style, the economic framework for transmission opportunities might be?

Dennis DeChamplain:
Thanks, Mark.

Yes, I'm going to say it's very early days on that Pumped Hydro project. There are clear signals forming in the market that this type of product is going to be required as renewables penetrate and escalate their share of generation as their coal comes off. We're, I'm going to say, a couple years out for making a final investment decision. We're anticipating early 2023, and commercial operations, pending FID, would be a few years after that. We're looking at 2026 as to when that could deliver earnings.

It's 325 megawatts, approximately $500 million development, so we believe that's in our wheelhouse after we've disposed of our Canadian fossil fuel and moving into the renewable electricity generation. You also mentioned the transmission, and that is firmly in our expertise coming off successful projects like the West Fort McMurray transmission development, Eastern Alberta Transmission Line, and before that the Hanna Region transmission development. I think we've really honed our craft with respect to that long transmission, long linear projects, and to help get that renewable energy to market in Eastern Australia.

We've got our critical mass, we'll say, in Western Australia with our gas business in Perth, but we do have our Structures business on the East Coast with manufacturing facilities in Brisbane and operations down in the Sydney area as well. Looking to expand that utilities and energy infrastructure portion out from the West into Eastern Australia. We're very excited about the project, and it's very early days with a long ways to go, but we're working on it.

Mark Jarvi:
Just a follow-up in terms of—you'd need, obviously, some sort of long-term off-take for Pumped Hydro to move forward. And then on the transmission would you see more concession-type projects, or actual ownership of some of the permanent regulated utility assets?

Dennis DeChamplain:
Yes, on the offtake for the Pumped Hydro, our business development and sales teams will be looking to contract for a significant portion of that asset as we move forward to making FID. On the transmission side, it's looking more like an ownership model that we would get a capacity charge based on a regulated rate.

Mark Jarvi:
Okay. Then one question in terms of the results in the quarter. The Natural Gas Distribution utilities performed quite well, really strong year-over-year. There's some commentary about some timing of costs. Can you just maybe outline what drove the strong year-over-year performance and if the timing of costs is because you already incurred them in prior quarters, or you deferred this quarter and you will have to incur those in subsequent quarters?

Dennis DeChamplain:
A lot of the boost to the earnings in our Natural Gas Distribution business is from a combination of operating and capital efficiencies. If you recall, the PBR II, the revenue bakes in an additional $300 million per year in capital, and while we're operating safely and reliably at a lower CapEx, those savings compound and are really starting to deliver material in-year savings. Of course, when we go to rebase coming out of PBR II into PBR III or the next version of regulatory, that lower rate base will result in lower charges, which will flow through to customers.

There's a lot of the upside associated with capital improvements, and then also on the operating end of it. I'm going to say there's numerous small initiatives that are amounting to those cost savings.

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

Benjamin Pham:
Hi, thanks, good morning.

You had some comments on how you expect to achieve growth and one of your comments was to not look to transformational M&A. I'm just curious, is that just really a reflection of where your stock is trading today, it's hard to do M&A in a big way? Or is it more, you feel confident in those other two pillars that that 2 per cent rate base growth will start to gain some traction as your core businesses in Alberta, in particular, are going to ramp-up in the couple years ahead?

Dennis DeChamplain:
Yes, good morning and thanks, Ben.

If you're looking at the stock price, and maybe it's kind of like our price relative to the price that utilities are going for, if they're going for up to two times rate base. It's really kind of, in absolute and relative terms, they're pretty expensive right now. We're not looking to go that way.

The regulated pillars, as you referred to them, with that 2 per cent rate base growth, while not at the levels we saw during the transmission big build that drove a lot of that increase, we really see that growth as our anchor tenant in order to help drive growth in the energy infrastructure renewables, non-regulated side of the business. There's very little; I don't think it makes the rounding on the $3.2 billion of CapEx for the next three years. It's pretty much entirely on the utility side.

We haven't put anything in that capital commitment for things like, in Australia, Pumped Hydro, or other capital associated with some of our other irons in the fire that we have, given that we haven't announced those projects.

Benjamin Pham:
Okay. Maybe when you think of the small-scale acquisitions, I'm thinking that's more Pioneer and maybe include the Pumped Hydro one that you did, that's more development. Can you share the thought process around—was that mostly just in your core geography here? Are you looking at, you need it to be accretive in the first year; and maybe context on size, what's your definition of small scale?

Dennis DeChamplain:
Well, the Pioneer, we'll say that's just a natural extension to our utility assets. While that's kind of an acquisition, I don't want to say it's a no-brainer, because we are looking to diversify geographically. This is a gas asset in Alberta. It comes with zero premium and we just fold that into our existing operating

footprint. The hundred kilometres is in our operating footprint. We believe that rightfully falls to our Gas Transmission, based on the integration agreement that we have with Nova, so whether that's a small acquisition or it's just an extension of our utility growth.

In terms of opportunistic M&A, we're not necessarily looking for that in-year accretive. We're looking to build for the long term. We acquired the pump hydro rights for a small undisclosed amount of money and that has the potential to drive earnings, as I mentioned earlier, in the back half of this decade. We're really focused on that long-term growth being driven from the renewables side of the house.

The other element is LUMA. We also have a half-year worth of earnings in 2021 and the contract amounts are included in the MD&A, and as we ramp-up to full operations, that will help to support the increased growth in earnings.

Benjamin Pham:
Yes, because there's that 2 per cent rate base and you had these other earnings drivers. Let me just close the loop on M&A. Would you have viewed the ATCO Gas Australia acquisition as large scale back then, 10 years ago? I mean, is that—would you characterize that as large scale for you?

Dennis DeChamplain:
Yes, a billion dollars 10 years ago would've been large scale for us.

Benjamin Pham:
Okay. All right got it. Okay, thank you.

Dennis DeChamplain:
Thanks, Ben.

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

Patrick Kenny:
Yes, good morning, Dennis.

I was just curious what you're hoping to see come out of the Alberta hydrogen roadmap this spring, what near-term opportunities you might be looking to sanction within the Energy Infrastructure segment, as well as potentially any upside to the capital outlook for the Distribution business?

I guess related to that is, seriously, if you think it makes sense to build the blue hydrogen production facilities effectively on-site of the power plant, so I guess at the end of the natural gas pipeline such as your Pembina-Keephills line. Or do you think, over time, it makes more sense to build more of a production hub closer to the storage caverns in Fort Saskatchewan, and then build dedicated hydrogen pipelines to the power plants and other end users?

Dennis DeChamplain:
Yes, thanks, Pat, and good morning.

I think in terms of what kind of would make more sense, would probably be the latter scenario that you referred to in Fort Saskatchewan, with hydrogen production there, we'd like to think we were the natural storage and transmission provider of that blue hydrogen. We've got four storage caverns operational, one under construction, and room for dozens more, so we are exploring that hydrogen development here in Alberta very seriously. We really do see that as a great potential, not only for hydrogen blending into the distribution system to lower the greenhouse gases, which we do have that pilot project that we're doing right now in that Fort Sask area, but also to a greater extent, throughout ATCO Gas' footprint.

Patrick Kenny:
Okay, that's great colour. Then switching over to LUMA, outside of your counterparties' debt restructuring there, can you just clarify how your contract might be backstopped by the emergency funding that was approved by the previous US Administration last fall? Just if you have any insights into, if that funding has been reaffirmed by the new Administration?

Dennis DeChamplain:
Yes, I don't think it's been reaffirmed by the Biden Administration. I do know that FEMA has never backed down on its committed funding, even with changes in the presidency. That roughly $10 billion from FEMA goes to reconstruction of the Puerto Rican electric system that was damaged by the hurricanes. That money, necessarily, isn't kind of backstopped our agreement, but one of the conditions to receive that money, is that a private operator needs to be in the chair. The Federal Oversight Management Board, FOMB, are very supportive of us, and of having that private operator go in to really remediate that system and get it to approaching world class. That's going to take a number of years, given the state of disrepair that system is in right now.

Patrick Kenny:
Okay, that's helpful. Thanks, Dennis.

Dennis DeChamplain:
Thanks, Pat.

Operator:
The next question comes from Andrew Kuske with Credit Suisse. Please go ahead.

Andrew Kuske:
Thanks, good morning.

Dennis, I think you mentioned earlier on in the call that you spent many years really honing your craft of long linear infrastructure. I guess if we look back over the last—we could pick any timeframe, 10, 20, 30 years, but all the heavy lifting you did in Alberta to really keep up with the pace of growth in the province, and now you're at this junction where growth looks like it's flattening out, and I guess there's a bit of a duality in the question, are you seeing any signs of green shoots in Alberta?

Then maybe the other aspect of this question is, given what you did in Alberta, over all those years, is that a great calling card for you to execute certain projects and RFPs like you did with Puerto Rico?

Dennis DeChamplain:
Yes, great question, Andrew.

You can see in the MD&A, over the next few years, we are forecasting our transmission, from the big build of just over $5 billion in assets. It's built; and with the depreciation burn, it's pretty much offsetting the CapEx. You see that flat over the next few years. While there's green shoots in Alberta, we don't really see too much of that impacting our Electricity Transmission business, which, at $5 out of $13 billion for our utility rate base here in Alberta, that's a big anchor. It's spinning off great cash flows right now, but we don't anticipate meaningful transmission development for the next 10 years, because the grid's been built to accommodate interconnection of renewables and so on.

We do see some pickup on our customer requests, coming from our gas business. On the distribution side, that really seems to track with GDP. As the Alberta GDP goes, that's what we would expect to see our Electricity and Gas business growing by, all else being equal, not including hydrogen for our gas or the grid modernization, strategic improvements that we need to do to the electricity grid to enable distributed systems, smart energy networks and what have you. We've got the GDP, but we also have some, we'll call them strategic investments that we need to do on the distribution side.

That goes to our calling card, and you're bang on. Our performance over the last number of decades where we continually improve on our operations, our efficiencies, that was great for the resume. That, we think, helped put us over the top on the Puerto Rico contract. We're digesting that right now, and it's a lot of heavy lifting to get through the transition timeframe. Then we can look to apply those operatorship-type skills to other potential opportunities, whether they exist now or whether we can go out and create them.

Andrew Kuske:
That's very helpful. Then maybe just following up on the operatorship side of things. With what we've seen in Alberta year-to-date with cold weather, the market transitioned into a different kind of market versus the legacy PPA system. Can you maybe talk a little bit about just the resiliency of the system and how things held up, and were there any surprises with just the new market construct and the opening of this market again?

Dennis DeChamplain:
On the electricity side?

Andrew Kuske:
Yes.

Dennis DeChamplain:
Is that what you're talking about? Yes.

Andrew Kuske:
Yes.

Dennis DeChamplain:
Everything held up really, really well. I was reading on the ISO website the other day, there was an outage on one of the tie lines coming in from BC and they said, "Don't worry, it's not like Texas." If you compare us, I mean, we're built for the cold weather. The system held up; pool prices obviously went up, but it held up very well. Our distribution system, Electricity Transmission, there wasn't a hitch.

Given that we're built for it, it's kind of in our DNA on the gas distribution side as well, where our people performed fantastically. A lot of pride and admiration for our folks on the tools, in order to keep the compression up, all the system planning and response that we have, really shone through under the radar, I'm going to say, because it's come to be expected that our homes will be heated, and that's exactly what we continued to deliver.

Andrew Kuske:
Thank you.

Dennis DeChamplain:
It's a bit of a rah-rah callout, shout-out, for our Gas Distribution guys.

Andrew Kuske:
Yes.

Dennis DeChamplain:
I'm glad I wasn't out there in the minus 40.

Andrew Kuske:
Yes, unsung heroes on the ops side. Thank you for the comments.

Dennis DeChamplain:
Thanks, Andrew.

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

Maurice Choy:
Thanks, and good morning.

My first question, just going back to the capital deployment bit. If you look back at last year, there was obviously a benefit of maintaining financial flexibility amidst the pandemic. Do you see yourselves tilting more now to a deployment, or is there still quite a considerable benefit of keeping this flexibility? If it is indeed more towards deployment, is it fair to say that many of your initiatives are more towards sowing the seeds for future deployment, like the pumped hydro, like the hydrogen rather than investing in operational assets today?

Dennis DeChamplain:
Good morning. Thanks, Maurice.

Yes. I don't know if anyone's ever out of the woods from COVID and the global economic turmoil that it left in its wake. I love the financial flexibility. It helps us on the credit metrics side.
You're correct in noting the longer-term project view. We have a long track record of our greenfield developments. We built up our international power generation business, most of it disposed of in 2019 but we still have that recognition that the greenfield development will lead to higher long-term value for our shareowners.

We’re not turning our back on operating assets where we can use that to accelerate market entry into a region, acquiring late-stage development projects that have been somewhat de-risked but not all the way through. We’ll call that a middle ground where we can have some nearer-term earnings; maybe not instant accretive operational earnings, but that come with a much shorter development timeline that we talked about earlier, with the Australian pumped hydro example.

Maurice Choy:
Great. If I could just switch gears to Puerto Rico. I recognize all the comments and all the questions earlier about the contract, but could you share any thoughts on what, perhaps, the Steering Committee formed by the governor, the new governor, to review the O&M contract could lead to? Have you engaged in discussions with them?

Dennis DeChamplain:
Yes. I mean, the governor issued an executive order in January that supports the contract, and it did establish that Steering Committee to help shepherd LUMA into commencement. Looking at things like ensuring a couple of fundamental principles like stable utility rates, and I mentioned earlier on the call that we filed our application with the PREB that didn’t have any increases in the utility rates, along with the system remediation plan that will help to drive down costs long term for customers. That was one fundamental principle, stable rates.

The second one was continued employment of utility workers. We are in the process on our recruitment drive, as employees would move from PREPA into LUMA. The affected employees that choose or are not offered an opportunity with LUMA do have, by law, employment with the government of Puerto Rico. We think that continued employment is a check as well. Given all of the legal, political charted waters that we need to go through, the Steering Committee, we really view as an ally to help get us to our targeted June 1 commencement.

Maurice Choy:
Fantastic, great colour. Thank you very much.

Dennis DeChamplain:
Thanks, Maurice.

Operator:
The next question comes from Elias Foscolos with Industrial Alliance Securities. Please go ahead.

Elias Foscolos:
Good morning. Just two questions.

You applied to defer the rate increases in Alberta. While I realize that's not going to have an earnings impact, it will have a cash flow or funds flow impact. Can you, I guess, confirm that this is really not going to be that material that it would impact credit metrics?

Dennis DeChamplain:
Thanks, Elias, for the question.

I mean, we didn't take it lightly. Our customers in Alberta right now are hurting as a result of COVID. Given the rate increases that we're facing, our Electricity and Gas Distribution utilities, we believe that it was the right thing to do for our customers long term. You're right that it will not affect earnings, but it does affect cash flow. We will be filing our application next week, outlining the quantum's and potential recovery periods for that cash deferral.

It is not overly material. If you look at our cash flow from operations in the $1.6 billion, $1.7 billion range, so it's less than—materiality in my mind, the hurdle is 10 per cent. It'll be less than 10 per cent, I suspect, of our overall cash flows. But in discussions with the rating agencies it would be a timing issue purely, so we don't think that we'd be unduly penalized in one year for something where we have the remaining balance sheet strength, in order to back up the A-range credit metrics where we're at right now.

Elias Foscolos:
Okay. Thanks very much for that colour, I appreciate it, and yes, I agree. It's just a one-year thing with a clear line of sight to catch up.

The last question and focusing a bit on Mark's question earlier about Natural Gas Distribution, I'll just try to simplify it a bit, because it caught me off-guard. We can expect to see a tailwind from the efficiencies into 2021 with that likely dissipating by 2022. Would that be a good way to view it?

Dennis DeChamplain:
Yes, I think if you're talking about tailwinds and timings, to Mark's question. I mean, some of those costs, planned programs that we had in 2020, some of those got deferred. We're not, I don't want to say kicking costs down the road, but there's some elements of our O&M programs that we weren't able to get to in 2020, which we would see coming through in 2021. A little bit of headwinds for Gas Distribution in 2021 compared to where they were in 2020.

Elias Foscolos:
Okay, thank you very much for that clarity, because I maybe wasn't listening to it correct.

That's it for me, thank you very much.

Dennis DeChamplain:
All right. Thanks very much, Elias.

Operator:
This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Myles Dougan for any closing remarks.

Myles Dougan:
Well, thank you, Anastasia, 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.