

# **Algonquin Power & Utilities Corp. TSX:AQN**

## **Special Call**

**Tuesday, June 3, 2025 6:30 PM GMT**

# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	10

# Call Participants

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# Presentation

## Operator

Hello, and welcome to the Algonquin Power & Utilities Corp. 2025 Investor Update Call. [Operator Instructions]

I will now turn the conference over to Mr. Brian Chin, Interim Chief Financial Officer and Vice President of Investor Relations. Please go ahead.

## Brian James Chin

*Interim CFO & Vice President of Investor Relations*

Thank you, operator, and good afternoon, everyone. Thanks for joining us for our 3-year outlook update conference call. On today's call, I will be presenting alongside Rod West, our Chief Executive Officer. To accompany our call today, we have a supplemental webcast presentation available on our website at [www.algonquinpower.com](http://www.algonquinpower.com).

Before we begin, I'd like to draw your attention to the disclosures regarding forward-looking statements and additional legal information beginning on Slide 2 of the presentation. As a reminder, today's conference call and the associated presentation will include certain projections and other forward-looking statements, including, but not limited to, statements about strategic direction, financial performance, operations and expected future growth.

Forward-looking statements are subject to assumptions, risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on forward-looking statements. Please refer to the cautionary disclosure about forward-looking statements in the slides of our presentation for information about such risks and uncertainties.

During the course of today's prepared remarks and Q&A, management may refer to non-GAAP financial measures such as adjusted net earnings. Please refer to the most recent interim MD&A and slides of the presentation or an explanation in calculation of the non-GAAP measures.

I'm joined by Algonquin's Chief Executive Officer, Rod West; and for Q&A, Sarah MacDonald, our Chief Transformation Officer. On the call this afternoon, Rod will provide an overview of his initial observations on where Algonquin is today and the opportunity set ahead to create value. I will then review our key financial metrics and provide the 3-year outlook through 2027. We will then open the lines for questions.

And with that, I'll turn it over to Rod.

## Roderick K. West

*CEO & Director*

Thanks, Brian. Good afternoon, everyone, and thank you for joining us. It's my honor to be with you today, representing the Board, the management team, our over 3,000 employees to discuss the tremendous opportunity ahead for Algonquin and its stakeholders and to provide our financial outlook for the next 3 years.

It's been 3 months Thursday, March 7, 2025 at high noon to be exact, since I was appointed Algonquin's new CEO. In that time, I've had the privilege of engaging with many of our stakeholders, our customers our employees, community leaders, regulators and many of you to listen and better understand the various perspectives on the company, the things we did well, opportunities for improvement what our stakeholders valued most at the end of the day, the insights I gleaned from those conversations validated my outside end point of view about the company.

Algonquin has the very real potential to become a premier pure-play utility. However, I am reminded that potential to quote my former football coaches, [ means you haven't done it yet ]. Anyone who has followed my career knows that competitive athletics. Especially American football at the core of my personal and professional leadership Ethos. Success in business, much like sports is the sustained disciplined endeavor of transforming potential into reality.

Algonquin's potential to be a premium pure-play utility stems from the fact that it operates an attractive, diverse portfolio of utilities across electric, water and gas and in several high-quality jurisdictions that benefit many of the macroeconomic tailwinds supporting the utility sector. Moreover, following the sale of the renewables business and our stake in Atlantica, the company's balance sheet better supports needed customer-centric investments to pave the way for our turnaround to pursue our premium pure-play ambitions.



The question is, how do we achieve that goal? I believe there are 2 foundational elements of how we get there. First things first, to become premium, we got to get to good. What that means is internally from California to Bermuda, from New England to Arizona, from Missouri to Chile and all the utilities in between we must align and lock hands on what becoming a premier pure-play regulated utility means.

Generally stated a premium or premier pure-play regulated utility earns its standing through consistent execution, a constructive regulatory compact and disciplined financial and operational management. These attributes position the company to deliver long-term value to shareholders, customers and communities.

But I want to double-click on several of the major components. The first being customer-centric performance. Premium utilities deliver strong customer satisfaction across all its utility service types as measured by third parties, industry standards and certainly internal KPIs and premiums also offer innovative programs to manage energy use, water conservation and affordability in doing so, reinforcing trust and service differentiation. And those who do it well partner regularly with regulators and communities to assist in providing access, equity and reliability, particularly in those underserved areas.

A second component of the pure plays who do it really well, constructive and stable regulatory environment. What does that mean? It means that we operate in jurisdictions with predictable, transparent regulatory frameworks that support full and timely cost recovery and allow returns at or near authorized ROEs.

Utilizing forward test years, trackers, riders and decoupling mechanisms to mitigate regulatory lag with the objective of supporting earnings stability. And certainly, maintaining trusted long-term relationships with public utility commissions and probably more importantly, with consumer advocates and the other stakeholders, all of which to enable a settlement-oriented outcome. To lower the cost of overall litigation with these cases that benefits customers in the long run.

The third component is having a pure play regulated business model. To us, it means that it generates more than 90% of its earnings from fully regulated utility operations and no real material exposure to nonregulated or merchant businesses. Investing in rate base growth through sustainable capital programs, aligned with infrastructure modernization, safety, resiliency and decarbonation imperatives.

Ultimately delivering visible multiyear earnings and rate base growth in the 5% to 7% range, supporting longer-term investor confidence. A fourth dimension financial strength and capital discipline, where the premiums maintain a strong investment-grade credit profile. For us, FFO to debt, 13% to 15% or greater cap structure is less than 60%, all of which to preserve low-cost access to capital, again, doing this benefits customers and certainly aligning capital deployment with regulatory approvals and long-term strategic priorities.

Again, avoiding speculative investments for unregulated growth. The outcome being delivering a secure, growing dividend payout ratios consistent with regulated peers, supporting those income-oriented investors. The fifth dimension, operational excellence and risk management. Again, this is the standard, not that we created, but what we've learned and what I've learned over my nearly 30 years in the business with you, the investor have told us.

What premium utilities do? Demonstrating best-in-class reliability, safety and service metrics, including electric SAIDI, SAIFI, water quality compliance and the like. Employing advanced asset management workforce readiness programs and technology-enabled system modernization to control costs and enhance performance. And embedding enterprise risk management into all of our planning processes to address whether it be regulatory, whether cyber or supply chain risk, all proactively.

And I think finally, the management integrity and execution track record. Premium utilities are led by our management team with a proven track record of delivering on financial guidance, regulatory outcomes and operational performance. Incentive comp align with shareholder returns, customer outcomes and long-term value creation.

And I think probably more important from my vantage point as the new CEO, transparent and consistent communication with investors and rating agencies, enabling premium valuation multiples relative to peers. Premium pure-play regulated utility is defined not only by its stable and predictable earnings profile, but by its ability to execute a strategy that aligns regulation, investment and stakeholder trust.

Every component of our vision, mission and strategy from stem to stern will be developed with achieving sustainable premier attributes at the forefront. The reason why I'm going through the detail to share what we believe the attributes of a premium utility is, I'm sharing to set the standard for the vision, mission and strategy for Algonquin on an ongoing basis.

The second foundational element is a clearly defined vision, mission and strategy to pursue the very attributes of a pure-play utility. I shared earlier today at the Annual General Meeting that Algonquin's vision is to become the most trusted and respected utility service provider in North America. We're not there yet. In some areas, we have a ways to go, but we're planning to flag in setting the vision today.

This vision is predicated on operational excellence, inspired employees and a premium market valuation driven by a robust portfolio and a customer-led growth trajectory. As CEO, I will manifest this vision by aligning our employees first around this clear mission. We exist to create sustainable value for our 4 key stakeholders: Our customers, employees, the communities we serve and where we operate and you, our investors.

While many companies share a similar mission statement, across many sectors, a distinguishing factor for the top tier performance is a consistent tone and role modeling at the time. And every decision at Algonquin must be made and communicated through the lens of value creation for all 4 stakeholders, beginning with customers.

Employees at every level of the company must understand and embrace how they contribute to the company's value proposition and their incentives must align accountability towards key value drivers. Before a rate-regulated utility like ours, strategic initiatives also us to include clear stakeholder value propositions and engagement plans with defined accountability.

His top-performing utilities create operational and financial margin by engaging the right stakeholders early and often, ensuring trust and delivering steady, predictable outcomes. That's how we drive value. Our near-term strategy at Algonquin centers on promptly improving outcomes for customers. This stakeholder value-driven approach is key to driving transformation at the company, and our employees are critical to our success, recruiting new and developing existing talent along with instilling a performance and accountability culture is among my top priorities in these early days, my tenure as CEO.

As we progress, we will evaluate decisions in the context of our commitments to our stakeholders to drive key improvements that position us to be a premier utility. First and foremost, providing safe and reliable service to our customers and exceeding not just meeting their expectations must become the standard everywhere we serve. Investing in the communities we serve where we can enable economic growth and drive and drive job creation is critical. Becoming a company of choice for people to build their careers and livelihoods, that's important in driving sustainable value for employees. And for you delivering sustainable value for our investors through focused utility execution and disciplined capital allocation. As we go forward, we'll execute on operational and regulatory fundamentals to drive the expected uplift in our earned ROE.

This will look and feel very familiar to many of you as a back-to-basic strategy. That's exactly the point. On the operational side of this back-to-basic strategy, this will mean driving efficiencies across our businesses to rightsize our cost structure after the sale of the renewables business. This is the one dimension where we are in complete control of our self-help fate.

Here is where pace and scale matters most. While there is much work to be done, we see opportunity to deliver an operating expense as a percent of revenue reduction of 5% to 7% and to a target range of 31% to 33% by the end of 2027. This will be a multiphase effort in span areas ranging from our procurement processes, how our teams execute work, IT solutions, support and billing to SG&A.

We've already begun this work in earnest and we're seeing early results that are promising. For example, historically, our utilities have had a high degree of operational independence. Over expenditure decisions and procurement choices such as vendor management, for example. We've chosen to centralize decision-making across our regulated services group portfolio. We believe we can reduce overall cost to customers and achieve economies of scale by bringing greater discipline to the way we approach our processes, partnerships and vendor management.

We're also already seeing benefits from the deployment of the new technologies. As we've talked about previously, our customer-first SAP program is a significant technological advancement that has streamlined processes across our business, which we expect will drive consistency and efficiency across the jurisdictions.

We readily acknowledge that the rollout of this platform in certain areas has been uneven and outright painful for some of our customers. I saw it, I heard it I felt it. We are not shying away from it, and we're committed to facing and fixing these issues promptly.

I've led multi-jurisdictional enterprise technology deployments in my prior life and they are complex and often [ wrought ] with peril. But I am convinced of the long-term value to customers, and we remain committed to seeing that customers ultimately realized realize the promised benefits. The second dimension of our self-help strategy is to prioritize achieving constructive regulatory outcomes everywhere we serve.

This is where operational excellence and improved outcomes for customers, intersects with stakeholder engagement to produce sustainable value for our 4 key stakeholders. Stakeholder engagement is not a static objective is represented by a singular metric. It is the sustained means by which we bring our stakeholders together along with us on the journey. Early and often, to inform and have them participate in our path to premium.

You will hear more about our stakeholder engagement strategy as we modify our operating model to support our pure-play ambitions. While our path to premier starts with self-help, it doesn't stop there. We're keeping our eye on notable growth opportunities. in the medium to long term as we re-earn our right to grow we serve.

One example of this is the recent award of transmission projects in the Southwest Power Pool or SPP, unprecedented in scope and concentration of investment within the SPP footprint, we were successful in being selected for several projects developed by our Empire District business and the most recent SPP integrated transmission play.

In total, SPP granted the Empire District approximately \$780 million of transmission projects, which we expect will be constructed over the next 5 to 6 years. This type of investment is a win-win for all our stakeholders, communities and customers we have the privilege to serve. We intend to file the notice to construct within the next few weeks.

Our regulated natural gas distribution utility system in Georgia is another example of a high-quality jurisdiction with significant demand tailwinds. To meet growing demand, the Georgia PSC approved our RISE program a 5-year program, which will allow us to invest over \$100 million to expand our transmission pipeline and some of our key distribution pipelines across the service period. We've already started to recover some of the initial investments as we have forward-looking recovery features in Georgia's contract.

Turning to the next slide. Recent changes to regulation and legislation are another important long-term value driver for the company. Many of the states where we operate have recently adopted or extended plans to adopt constructive legislation and regulation to drive regional economic development.

Missouri recently passed Senate Bill 4, a transformative legislative action reforming the state's regulatory framework. This was a blueprint partnership between the Missouri PSC, legislative leadership, the Governor's office, the Office of Public Counsel, our utility partners in the state and other stakeholders in achieving this milestone.

Senate Bills 4 or SB4, as we call it, provides electric utilities, the opportunity to recover on CWIP, or capital work in progress, for new gas-fired generation. It also expands plant in service accounting to 2035. Additionally, SB4 allows for the use of a future test year for water and gas utilities. In Arizona, the commission has adopted a policy statement for providing formula rates, which while in litigation steel, we are hopeful will become the long-term policy of the state.

In addition, the Arizona Commission recently approved a depreciation deferral for our Surival wastewater plant -- Sarival, I should say, an important investment to meet the needs of the Litchfield Park and City of Goodyear, Arizona. New Hampshire's updates include a recent authorization of a depreciation deferral for our Granite State Electric utility.

In Oklahoma, is providing electric utilities the opportunity to also recover on CWIP for new gas-fired generation as a result of new legislation. Overall, these recent updates are enabling more timely recovery of investment and reducing regulatory lag and provide for significant opportunities for the company in the coming years.

That said, we are fortunate again to operate in high quality jurisdictions that have attractive regulatory mechanisms. This includes constructed tracker mechanisms, multiyear rate plans, forecasted test years and formula rate structures.

These regulatory mechanisms underpin the majority of the expected rate base growth between now and 2027. 3 months in for me, this much I'm convinced of. I've had conversations with multiple several governors, I won't name them but to a man and woman. I will say that they have made it clear to me and have observed what I've observed that in every state that's going through a period of economic revival and economic development, a catalyst for growth in those states is a healthy utility across the scenes.

And many of those governors have shared their desire that we, Algonquin, Liberty show up and participate where we serve in creating and fostering economic development. We only get to do that at a healthy growing utility. As I mentioned, this notion of potential meaning we ain't done it yet. My objective is to tee us up to do it.

I'll now turn it over to Brian to walk you through our 3-year outlook and the key financial metrics.

**Brian James Chin**  
*Interim CFO & Vice President of Investor Relations*

Thank you, Rod. This morning, we announced via press release our path to achieve better regulatory outcomes and drive efficiencies within the organization. Simply stated, we're going to broadly pursue 2 key objectives: one, we're going to pursue more constructive regulatory engagement. We plan to do this with investments in a more robust and resilient commodity service delivery system to improve customer outcomes and elevate stakeholder engagement to a competitive and strategic advantage, particularly with our customers and the communities we serve.

Two, we're going to bend our cost curve to create headroom to invest more for the benefit of our customers. With our newly focused business model, we aim to focus on operational efficiency like never before. Our plan already in motion aims to reduce our operating expenses as a percent of revenues by 5% to 7% to a targeted 31% to 33% squarely within our peer benchmarks. This should enable us to better deploy capital investment to provide improved customer service and value.

In fact, our plan involves investing \$2.5 billion over the forecast period on behalf of our customers. The combination of these 2 broad actions should serve to deliver sustainable investment value and lead to us re-earning our ability to grow. What this translates to is the investor update released earlier this morning. More specifically, our 3-year outlook through 2027 incorporates more constructive regulatory engagement from rate cases controlled operating costs and increased capital expenditures across the business.

In 2025, we are well positioned to achieve adjusted net EPS within a range of \$0.30 to \$0.32. And we anticipate the near-term operating efficiency measures, Rod discussed today, to be a positive driver.

Moving to 2026, we estimate that adjusted net EPS will be within a range of \$0.35 to \$0.37, driven by the realization of operating efficiencies we have underway as well as completion of the Empire Electric Missouri case for part of the year and also partially your timing from the CalPeco electric rate case. And in 2027, we estimate adjusted net EPS will be within a range of \$0.42 to \$0.46, driven by the progression of our rate case calendar, including the full year effects of both Empire and CalPeco and a combined reduction in O&M expenses as a percent of revenues from 2024 levels to a targeted range once again of 31% to 33% by 2027.

In addition, we expect capital investments to be invested in that will focus on reliably serving our customers. In addition, the increase in adjusted net EPS is expected to reduce our dividend payout ratio to our targeted 60% to 70% range in closer alignment with leading peers across our industry. In combination with the EPS growth trajectory we foresee in the next 3 years, we believe we will be positioned to offer a much more compelling investment thesis to our shareholders. Particularly as we deploy retained cash flows towards our capital plan and new growth opportunities.

Over the next 3 years, we will ramp up the execution of a disciplined and sustainable capital plan as we continue to enhance our operations and build a culture of execution. As I mentioned in a moment ago, we expect approximately \$2.5 billion of total regulated utility capital expenditures for 2025 through 2027.

Almost half of our capital plan is focused on asset replacement and the remainder comprises investments to expand the system, support customer growth and bring online new generation sources. Importantly, a majority of our anticipated capital expenditures are expected to be eligible for recovery via capital trackers, formula rates or other intra-rate case mechanisms.

We expect the execution of this capital plan to translate into steady rate base growth over the period, and we estimate rate base of \$9.1 billion by year-end 2027. As Rod discussed, our objective is to improve our earned ROE to approximately 8.5% by year-end 2027, significantly closing the gap to our authorized ROE of 9.2%.

Longer term, we would expect that gap to continue to close as we further work to implement characteristics by fitting a premier regulated utility. Let's move to the balance sheet. I mentioned earlier that we've made a significant improvement with respect to the company's financial position. We are targeting an ongoing BBB credit rating, and we intend to maintain that rating without the need of equity issuance through 2027.

In effect, we expect improving our earned returns improves our cash flows fast enough to offset the need for equity issuances through our forecast period. Accordingly, we expect to be at or above our requisite thresholds for BBB through year-end 2027.

Before I hand things back to Rod for his closing remarks, I want to touch on one more point. As a former utilities investment analyst myself, and now as interim Chief Financial Officer, it's a point that perhaps I am in a distinguished position to make.

A regulated utility focused on its core vision and refocusing on that is historically a pivotal moment. As the lead utilities analyst at Citigroup and Bank of America Merrill Lynch, I saw this happen at other utilities, including Exelon, Duke Energy and Rod's former home, at Entergy. It is remarkable what having a singular purpose can achieve. The trick is that these self-help situations don't come around very often. So let me tell you with the perspective of the 2.5 decades of utility investment and executive experience brings.

It takes a particular combination of strategic planning, recognizing management hubris and sheer will to pull off. These moments in the industry are accordingly few and far between. I submit to you, our investors, with both tremendous excitement and humble confidence that this, this is one of those times.

Now I'll turn it back over to Rob to provide the final remarks of the presentation.

**Roderick K. West**

*CEO & Director*

Thank you, Brian. It's still the early days, and our assessment of the business remains ongoing. But I am confident that we have a highly achievable near-term plan to improve regulatory and operational outcomes to reach our goal of increasing our earned returns and driving attractive EPS growth through 2027.

I look forward to continuing to solidify our leadership team so we can truly accelerate Algonquin forward. We look forward to providing another update later in the year.

And with that, I'm happy to open the line to provide the management team to answer questions. Operator?

# Question and Answer

## Operator

[Operator Instructions] We have Ben Pham from with BMO Capital Markets.

### **Benjamin Pham**

*BMO Capital Markets Equity Research*

Maybe just to start off on the OpEx savings, you provided some ranges to move towards some of those levers to get there. The pro forma ratio, can you share context of how that compares to industry expectations or norms within North America?

### **Brian James Chin**

*Interim CFO & Vice President of Investor Relations*

Ben, thanks for the question. This is Brian. So when you look at industry benchmarks, what we've done is we've looked at a combination of gas, electric and water utilities that matches the proportions that we have in our portfolio. And those peer benchmarks when you take that approach gets you to somewhere in the low 30s just like our targeted range. I will note that when you look at water utilities in particular, because the profile of cost of goods sold, that causes the numbers to look a little different than when you look at just gas and electric utilities. So you do have to take a proportional mix that equates to our portfolio.

### **Benjamin Pham**

*BMO Capital Markets Equity Research*

Okay. That makes a lot of sense. And then on other lever the -- are part of the lever to the ROE, the 300 basis points, maybe a bit nitpicky here, you have a plus sign on that.

I mean as you've gone through the analysis and dug a bit deeper, I mean, is there potential room to exceed that 300 bps?

### **Roderick K. West**

*CEO & Director*

The short answer is, yes. We're underlying our outlook, what we believe to be reasonable expectations in the regulatory without getting ahead of our regulators. But I made reference to the fact that we create margin in 2 areas, the most direct one being our ability to bend the cost curve and to the extent that there are some additional levers we can pull internally that aren't relying on external decision-makers. We're going to try to pool those levers. But there is an opportunity for us to do better than that.

## Operator

Your next question comes from the line of Rupert Merer with National Bank.

### **Rupert M. Merer**

*National Bank Financial, Inc., Research Division*

Rod, you discussed creating a culture of accountability and incentivizing your team appropriately to focus on your goals. What does that process look like? And how long do you think it takes you to get to where you need to be?

### **Roderick K. West**

*CEO & Director*

Yes. The first process, obviously, the easy part is setting the standard and the goals. But that's one part. But certainly bringing in and developing talent and holding them accountable internally doesn't just happen overnight. What we're doing right now is educating the employee base on what the standard is. We have current goals and metrics that we're holding ourselves accountable to recognizing that we're making the transition.

The moves that I am making to both recruit and develop talent in the areas where we have not been strong is where I'm spending and let's be honest, probably between now and the end of the year, setting the stage, I do have an expectation that 2026 will be our first real opportunity to have a full-on expectation of accountability in terms of time performance to those major value drivers to accelerate the sort of the go-forward -- the go-forward stage has already been set. But what we're talking about is accelerating that path forward and I don't have the opportunity to do that once I have the team fully in place.

So I'm giving us some time to put those mechanisms in place internally and to bring in additional talent as we're developing our existing workforce.

**Rupert M. Merer**

*National Bank Financial, Inc., Research Division*

And secondly, maybe for you, Brian. When you look at the guidance you've put forward, you do have a slide where you talk about some of the assumptions and you've talked about the factors that are within your control. What do you think are the biggest risks to the plan? And maybe the biggest potential upside from the assumptions on which you don't have control?

**Brian James Chin**

*Interim CFO & Vice President of Investor Relations*

Thanks, Rupert. I think it's fair to say that at this stage, as we have reduced the degrees of freedom that we have to operate, which is what you want when you have a simplified business model this really boils down to an execution risk story. And like Rod said, there's 2 components to this. We have a self-help story where we have costs directly under our control and how do we manage that without missing an execution be.

And the second is driving a more constructive regulatory engagement process with the help of our stakeholders externally. That is a process that we can influence, but we need to partner and engage in a more constructive fashion going forward. But it's really those 2 pieces. And I think that when you look at those 2 pieces in totality, but that's what you should see. This is a very straightforward process that we're looking at back to basics, as we said earlier.

**Roderick K. West**

*CEO & Director*

I'll only add that the particularly on the back end with the stakeholder engagement strategy, the risk is our ability to execute towards this objective of operational excellence and customer outcomes. Of course, you want to put productive capital to work for the purpose of producing OpEx outcomes that delight your customers. And for us, anything that we get in the way of our ability to provide outcomes that matter to the customers is a risk.

And so I embrace the fact that the risk for us, as Brian said, is properly execution risk, but so much of that we actually get to control, if not influence. So that's the answer to your question. The risk is execution risk, but I like where we sit because the assets that we're working with gives us a fighting chance. And the fact that we've derisked the balance sheet gives me, as I think about the portfolio, the opportunity to put capital to work to benefit customers that wouldn't have the same type of impact on the customers' bill because our overall cost profile is lower.

And so I hear the question and we're eyes wide open on the risk, but of course, that's management's job to do.

**Operator**

Your next question comes from the line of Nelson Ng in with RBC Capital Markets.

**Nelson Ng**

*RBC Capital Markets, Research Division*

So just a quick one on your 8.5% targeted ROE for 2027. Over the next 18 months, do you expect to file any big rate cases? And if so, which ones would those include?

**Brian James Chin**

*Interim CFO & Vice President of Investor Relations*

Nelson, we have filed a notification for Massachusetts. But beyond that, I think that you ought to look at our historical cadence of rate cases and glean the trajectory from that. We obviously want to make sure that we maintain our proper engagement with our stakeholders and that due course, we'll provide public notification in the proper channels.

Outside of that, the 3 big rate cases you're already aware of, California and Missouri, we've already filed in Arizona, as you know, we expect to file soon.

**Nelson Ng**

*RBC Capital Markets, Research Division*

Okay. And then just on that trajectory, so I know I'm looking past your 2027 guidance. But for 2028, it seems like the realized ROE would probably have a 9 handle on it? Or like do you have any internal targets...

**Roderick K. West**  
*CEO & Director*

We're not going to go -- we appreciate the tone of the question. We're not going to go past the planning horizon, but I tip my hat to you for taking the shot.

**Nelson Ng**  
*RBC Capital Markets, Research Division*

Okay. And then another question, just switching gears a bit. Does your forecast assume that you keep the hydro acids for now? Obviously, you have a sales process ongoing and maybe any potential so would be EPS neutral. I just want to see what some of the underlying assumptions are.

**Brian James Chin**  
*Interim CFO & Vice President of Investor Relations*

Yes. Thanks, Nelson. So as I stated on the Q1 call, we're in the process of deciding whether to look at a sale of hydro or not. And as we've stated in the past, it needs to be value accretive on a number of different dimensions for us to make that decision.

What I would say is in the forecast, well, I'm not going to answer that question directly. The size of that asset is relatively small where we do not expect the outlook to materially change based on our basic thought process around that.

So I'm not going to directly answer your question, Nelson. But the main focus of the story here is the regulated business, and that's where I pivot the attention to.

**Operator**

Your next question comes from the line of Rob Hope with Scotiabank.

**Robert Hope**  
*Scotiabank Global Banking and Markets, Research Division*

Maybe the 2027 REA ROE of 8.5%, there was a range there. But when you think about the 70 bps below the allowed level, can you maybe help us think about is this partially regulatory lag? Or is this mainly just the continuation of the OpEx profile that you spoke about?

**Brian James Chin**  
*Interim CFO & Vice President of Investor Relations*

So it's a little bit of both. We haven't spelled out in the outlook what portion of that lag relates to capital and which portion relates to OpEx. But I think you should assume that as we continue to improve our characteristics towards a premium regulated utility, it's going to be a little bit of both. We tend to view ourselves as our opportunity set is based on the jurisdictions in which we operate as well as our ability to bend the cost curve.

So I realize that that's not directly answering your question, but it is a blend of both of those features. You're spot on.

**Robert Hope**  
*Scotiabank Global Banking and Markets, Research Division*

All right. I appreciate that. And then just taking a look at the 2025 to 2027 capital plan, you've got a relatively good recovery out to 2027. Is this timing more of a function of when rates will come to bear and such that you're earning an appropriate return on that? Or should we think of this more and just in terms of project timing with some incremental SVP spend picking up in '27?

**Roderick K. West**  
*CEO & Director*

So no, I think it's really a little bit of both here. We do have the effect of SPP investment kicking in, in the latter portion of 2027. So that does start to creep in. But as you've heard us say in the past, that impact is relatively low because the construction outlook for those projects tends to be more tilted towards the back end of the decade.



**Operator**

Your next question comes from the line of Richard Sunderland with JPMorgan.

**Richard Wallace Sunderland**

*JPMorgan Chase & Co, Research Division*

Starting with the \$2.5 billion of CapEx. I know you sketched out some of the inter mechanisms to earn on that. Are you able to quantify how much of that \$2.5 billion you expect to be in rates in 2027?

**Brian James Chin**

*Interim CFO & Vice President of Investor Relations*

We haven't articulated that directly. We do have planning assumptions, as you would expect, but that's partially driven by the rate cases that we plan to file.

And so I trust that you can understand, we can't articulate that out with a high degree of specificity.

**Richard Wallace Sunderland**

*JPMorgan Chase & Co, Research Division*

Understood. And then I think in the past that you had quantified it as maybe \$1 billion of rate base that you weren't earning on recognizing that the balances change over time. Can you just give an update on sort of the assumptions embedded in the plan relative to that I guess, I'll call it legacy portion.

Is this all covered in those large rate cases and therefore, when you get to 27% and have that all rolled in, you've effectively captured that legacy portion and the other considerations there would be helpful.

**Brian James Chin**

*Interim CFO & Vice President of Investor Relations*

Yes, Rich, the short answer to that is yes. However, it's important to recognize that if we're only looking at that \$1 billion definition, as that receives further into the rearview mirror, it becomes less and less relevant of a data set to track, right? Instead, what we look at is to what extent are we investing in capital relative to when we think regulators will allow us to put those in approved rates.

And so that trajectory, we believe, will tighten that gap, we believe will tighten through most of the forecast period. And then as we get towards some of the larger projects like SPP, you may see that start to stabilize out a little bit. But the short answer to your question, Rich, is yes.

**Operator**

Your next question comes from the line of Sean Steuart with TD Cowen.

**Sean Steuart**

*TD Cowen, Research Division*

Question on dividend policy, and you provided updated perspective on the payout ratio. I guess, Brian or Rod, your perspective on what EPS base makes the most sense to look at with respect to that dividend payout ratio? Your guidance you're providing includes HLBV income. You've given a slide towards the end that excludes it. Which metric do you think makes the most sense when you're targeting that payout ratio?

**Brian James Chin**

*Interim CFO & Vice President of Investor Relations*

Thanks for that question, Sean. So we haven't articulated which of those metrics we're going to use. But historically, we've used the adjusted net earnings EPS number as the thought process driver. I will say, and perhaps it goes without saying since we have that forecast is that the dividend per share through the forecast period is flat.

And so as we get to the tail end of the forecast period, there will come a choice at some point down the road of how the company wants to deliver value via its choices around capital deployment. And so at that time, we'll come to a point of view on the dividend with a greater degree of clarity. But I just want to make it very clear for everybody.

The dividend per share outlook and the forecast is flat. And just because everybody kept asking about it, we show what the dividend payout ratio is both before and after HLBV. That is not something that is something that we're hiding behind. That is absolutely something that we want to make sure everybody sees and understands because it's a part of our framework for now.

**Sean Steuart***TD Cowen, Research Division*

Okay. Got it. Second question, and I feel like you've maybe answered this in prior questions, but the EPS walk you're giving here the next 3 years, especially the 3 big rate case filings you have, what's -- are you assuming full conversion you're going to get everything you're asking for in those rate cases. Is that implied in the EPS guidance? Or is there a discount applied to those outcomes when you're driving that forecast?

**Roderick K. West***CEO & Director*

Yes. I'll only say that our underlying assumptions assume a reasonable outcome. And I won't get ahead of our regulators because we -- they are the ultimate arbiters of those outcomes where the litigated are settled. So but yes, our underlying assumptions assume a reasonable outcome in our rate proceedings.

**Operator**

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

**Mark Thomas Jarvi***CIBC Capital Markets, Research Division*

The yearly CapEx and rate base numbers you provided are helpful and there's Slide 10 that has the outline of the opportunities. Just curious if you'd be more explicit in terms of where that incremental spend as you step up from '25 to '26 to '27? Doesn't sound like that SPP spend really comes in too much in '27. Just wondering where that money or where the investments are going in '26 and '27.

**Brian James Chin***Interim CFO & Vice President of Investor Relations*

Yes. in '26 and '27, it's more direction of smaller projects that we need to invest in on behalf of our customers. Approximately 70% of our capital spend goes into projects that are less than \$50 million in discrete project size. And so we have a lot of catch-up work to do with our customers for their benefit and their service and their value.

So there's not really a large sort of small number of projects that we can point to outside of the ones that we've already highlighted. And you're right, Mark, by the time you get to 2027, the first inklings of the SPP transmission line projects start to bake in, but it's really towards the back half of the decade where that starts to come in fruition.

**Mark Thomas Jarvi***CIBC Capital Markets, Research Division*

And there's nothing in terms of the allocation of those dollars across your utilities when you think about ones that have multiyear rate plans or forecasted test years or different trackers or different equity thicknesses? Like the dollar spent should feel largely like the average characteristics of your portfolio? In terms of regulatory mechanism.

**Brian James Chin***Interim CFO & Vice President of Investor Relations*

Yes, Mark, I think for modeling purposes, if you model us proportionally along with our rate base proportions, I think you'll probably be in a good spot. I would say, however, that as a management team, it should be no surprise that we're looking at where are our earned returns and where is their constructive regulatory jurisdictions that enable us to capture the widest amount of stakeholder value across all of our stakeholder bases. That is definitely part of the thought process.

**Mark Thomas Jarvi***CIBC Capital Markets, Research Division*

Okay. And then just coming back to the question of what's embedded as you go to 2027. It doesn't seem like you want to say too much about future rate cases. Maybe I'll ask it a different way. Could you hit the 2027 EPS guidance range based on the rate cases that have been filed today? Or yes, may I'll leave it there and see what your answer is.

**Roderick K. West**  
*CEO & Director*

No, no. The expectation is that we are going to achieve reasonable outcomes with the pending rate cases. As I alluded to earlier today, 2024 had one of the busiest regulatory calendars. And of the 11 or so rate cases that were pending, I believe we now have 7 that represent a pretty fair ask of just on the \$200 million. And so we assume a reasonable outcome, again, without getting ahead of regulators.

So we're not just sitting back and giving you sort of a false conservative view, we are taking on the execution risk of pursuing on behalf of our stakeholders, benefits for customers and our owners in the communities alike what we have in the can.

**Mark Thomas Jarvi**  
*CIBC Capital Markets, Research Division*

And then just on the OpEx, Brian, you kind of give a percentage of net revenue, but that -- or revenue, but those are going to be going up as you get rate cases settled on the top line, you're getting the benefit. Just on an absolute dollar of OpEx, are you expecting that to be less in inflation? Can you actually hold that flat or decline where you were in 2024?

**Brian James Chin**  
*Interim CFO & Vice President of Investor Relations*

Mark, we haven't given an OpEx absolute target. So I can't directly answer your question here. But we have expressed that as a percent of revenues. If you do the math on 2024, what you'll see is that math works out to the high 30s percent range.

So you can do some quick triangulation and see how that trajectory should directionally go, but I'll leave it up to you and your smart team to figure that out.

**Operator**

There are no further questions at this time. I will turn the call over to Mr. Rod West for closing remarks.

**Roderick K. West**  
*CEO & Director*

Well, simply thank everybody for those who are able to participate on the AGM this morning and for those of you who called in, thank you for your interest in our story. And we look forward to following back up with you later on in the year as we expand the scope of our disclosures. Thanks, everybody.

**Operator**

This concludes today's conference call. You may now disconnect.

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