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AQN.TO - Q3 2018 Algonquin Power & Utilities Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2018 / 3:00PM GMT



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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the Algonquin Power & Utilities Corp. Third Quarter 2018 Conference Call. (Operator Instructions) The conference is being recorded. (Operator Instructions) I would now like to turn the conference over to David Bronicheski, Chief Financial Officer. Please go ahead, Mr. Bronicheski.

David Bronicheski - Algonquin Power & Utilities Corp. - CFO

Thank you, and good morning, everyone, and thanks to everybody on the line today for joining us for our 2018 third quarter earnings conference call. As everyone knows, Chris Jarratt, our Vice Chair would typically introduce this call, but Chris today is attending an Atlantica board meeting across the pond on Algonquin's behalf. So today, you've got Ian Robertson and myself co-piloting today's conference call.

To accompany this earnings call, we also have the supplemental webcast presentation that you can access from our website, algonquinpowerandutilities.com. This presentation as well as additional information on our Q3 2018 results is available for download from our website.

Before continuing with the call, we'd like to remind you that our discussion during this call will include certain forward-looking information and may also refer to certain non-GAAP financial measures. At the end of this call, a member of our Investor Relations team will read a brief legal notice in respect of both forward-looking information and non-GAAP financial measures.

On our call this morning, Ian will outline the operational and development highlights of Q3 2018, I'll follow-up with financial highlights for the quarter and then Ian will conclude with our outlook for the remainder of 2018 and beyond. We'll then open the lines for questions. (Operator Instructions)

Now, I'll turn things over to Ian to discuss our progress on Q3.



Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

David, thanks, very much appreciate it. Welcome everyone to our Q3 earnings call. As usual, let's start the call by highlighting a few of the key takeaways from across our business this quarter. Firstly, despite challenging natural resource conditions which brought lower-than-average wind and solar in the quarter, which actually seems to be somewhat of a sector theme this quarter, the diversification of our business groups helped us deliver stable financial results in the quarter.

Adjusted EBITDA continues to show growth over the comparable quarter in 2017. Adjusted funds from operations increased by 22%, and our adjusted earnings per share appears to be consistent with consensus estimates.

Secondly, we continue to build positive momentum on our investment initiatives in Q3. We're making progress on our efforts to reduce energy bills for our electric customers by bringing 600 megawatts of new renewable energy into Liberty Utilities, Midwest, generating [as] following, finalization of agreements for the construction of the wind generating capacity comprising our customer savings plan. Final CC&N or certificate of convenience and necessity regulatory docket for 2 of the 3 projects comprising the 600 megawatts have been opened in Missouri with the remaining application scheduled to be completed in the coming days. Based on the procedural schedule, which has been discussed, final approvals are expected early this coming year.

Looking north of the U.S. border in mid-September, we were pleased with the receipt on the environmental approval from the government of Saskatchewan for 177-megawatt Blue Hill Wind Project. This was an important milestone in the development of this material-sized Canadian project.

And lastly, we continue to advance our diverse high-quality set of up growth opportunities. Within Liberty Utilities, our \$300-plus million Granite Bridge natural gas transmission and storage infrastructure project continue to be recognized as a prudent initiative to reduce the energy cost of our New Hampshire natural gas customers by helping alleviate New England supply constraints.

Consistent with our organization's commitment to sustainability, we're pleased that a regulatory approval document has now been opened to approve our first renewable natural gas production facility. The ability to offer our customers the opportunity to use renewable natural gas to help them meet their own environmental sustainability goal was an important factor in Liberty Utilities' recent success in attracting a new large institutional customer in New Hampshire.

Next, with the condition precedent to closing nearly satisfied, we expect closing of the transaction pursuant to which Algonquin will acquire an additional 16.5% interest in Atlantica to occur in the quarter.

And finally within AAGES, our international infrastructure development arm, we are pleased with the execution of the agreements needed to allow development of the 220-kilometer ATN3 transmission line in Peru to move to the next stage, with an understanding now reached with the existing project lenders, updating the concession agreement with the Peruvian government is the next step before construction resumes.

And with that, I'll pass it back over to David for a review of our Q3 2018 financial results. David?

David Bronicheski - *Algonquin Power & Utilities Corp. - CFO*

Thanks, Ian, and good morning, again, everyone. As Ian mentioned earlier, Algonquin Power continued to deliver strong and predictable results in Q3 of this quarter. Year-over-year, our adjusted EBITDA was \$164.2 million and that was a 4% increase over the comparable period in 2017. Further, because of our strong growth profile, we continued to show overall growth in our EBITDA on a consolidated basis even as we absorbed the effects of U.S. tax reform.

Within our Liberty Power business, the overall EBITDA increase over the comparable quarter was largely driven by a full quarter of results from our Great Bay Solar facility, representing \$2.1 million and our Q3 dividend from Atlantica of \$8.4 million, partially offset by less than seasonal production from our Hydro facilities and lower HLBV from our U.S. wind facilities. On a net basis, Liberty Power was certainly a growth driver for us in Q3.

On the Liberty Utilities side of our business, EBITDA contribution from the utilities business was essentially flat compared to a year ago. There were 2 factors at work here. First, from a pure operations perspective, contributions from our electric operations improved over the results in Q3 2017 due to warmer weather and higher cooling degree days, but this was partially offset by lower consumption and higher operating costs within our gas business.

Second, from a rates perspective, as we expected, we see the value of our regulatory diversity at work. Given we operate 37 utilities and 12 regulatory jurisdictions, we always have several rate cases that are in front of regulators at any given time. So we see the implementation of new rates at a number of our utilities, largely offsetting the net effects of U.S. tax reform. As a result, EBITDA from our utilities group was essentially flat year-over-year.

I would also mention that late in the quarter, we received our rate order from the Missouri PSC with respect to tax reform, which we have implemented beginning August 30, 2018. As a result, we've now received and implemented rate orders or U.S. tax reform to more than 90% of our utility customers. The rate orders that we've received and implemented in 2018 continue to be consistent and within our expectations of the overall effects of U.S. tax reform, which we communicated earlier in the year as being approximately 3% to 5% of our 2018 EBITDA. This amount is certainly within the normal operating variability through which we manage our business.

With respect to EPS, we reported adjusted EPS of \$0.10 for Q3 2018, which is consistent with market expectations. Our adjusted EPS was less than 2017 due to lower HLBV income and a rate order, which created a onetime increase to our regulated depreciation expense.

The final item I would like to mention this morning relates to our recent issuance of subordinated notes to U.S. institutional and retail investors, which was completed subsequent to the end of Q3. Shortly after the quarter end, we had a very successful offering in the U.S. public debt capital markets. This marked our inaugural entry into the U.S. public debt markets. We launched a \$200 million public subordinated debt offering, which due to demand, we upsized to the total of \$287.5 million. This was a 60-year nonqualified fixed to floating subordinated note with a coupon of 6.875%. These notes are now trading on the New York Stock Exchange under the symbol AQNA.

With that, I'll turn things back over to Ian.

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Thanks, David. Finally, before we open up the lines for questions in a couple of moments, I thought that rather than, as usual, walking through our near-term growth initiatives, which actually I think are pretty well covered in the MD&A, I'd provide a sneak peek at the themes for our upcoming Investor Day.

Firstly, we see our commitment to operational excellence as a source of value creation. You'll hear about our local focus contributing to improved regulatory mechanisms. This commitment to understanding and delivering against our customer needs is our path to success for the utility of the future.

Lastly, the falling price of energy makes operational excellence an increasingly critical success factor in the renewable energy value proposition.

The second theme that you'll hear about is what began as the small investment in solar energy in our California Utility has now expanded to represent well more than \$1.5 billion of forecast CapEx in our 5-year Liberty Utilities investment plan. We believe that advances in energy storage coupled with California's commitment to renewable energy will support our objective of making a 100% renewable energy utility a near-term reality.

Technological and economic advances are allowing our natural gas utilities to offer renewable natural gas to our customers, an important contributor to helping our customers meet their own environmental sustainability objectives.

And the last theme you'll hear about is that we believe our entrepreneurial and agile culture will be critical to help integrate sustainability into our business plan and strategy and put us on the path to doing well and doing good. The continuing decline in renewable energy prices is driving growth in the Liberty Power pipeline of wind and solar projects leading up to the expiration of the production tax credits in the United States.



New opportunities to modernize our utility operations and introduce new technology solutions to provide enhanced services to our customers have provided us substantial growth in utility investment potential, all the while mindful of maintaining competitive customer rates.

So hopefully this teaser has incited you to put our upcoming December Investor mornings being held here in Toronto and in New York into your calendars.

And with that, I'll turn the call over to the operator to open it up for questions from those on the line. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Sean Stewart with TD Securities.

Sean Steuart - TD Securities Equity Research - Research Analyst

A couple of questions to start. Beyond the Peru transmission project that you updated, can you give us any context on other perspective growth that AAGES has on deck, things that you're considering for that JV?

Ian Edward Robertson - Algonquin Power & Utilities Corp. - CEO & Director

Yes. There is -- well, I guess, I'll say that you probably heard -- I will say of some of the things, but if you tuned into the Atlantica earnings call earlier this week, Santiago, on behalf of Atlantica, outlined a number of growth initiatives, some of which actually touch AAGES as well, because they're more on the development side of things, particularly, there's a natural gas transmission platform that I think AAGES could be helpful in. We're looking at, and working, on additional water desalination, it happens to be in North Africa, there's a project that would be complementary to a project that -- couple of projects that Atlantica owns right now. Interestingly, water desalination, believe it or not, in the U.S. has legs in California. Wind down in Uruguay is an area of interest. So I think, Sean, in summary, I guess, we are continuing to look at our opportunities that feel pretty similar to the portfolio of projects that are already in Atlantica from an international perspective. I think -- and maybe this is a teaser for our investor morning, the intent is to provide a little bit more color into some of the specifics in terms of where, how much, when at the investor morning. So -- but I think there's -- I don't say there won't be any positive or negative surprises. It's working kind of exactly the way we had hoped, Sean.

Sean Steuart - TD Securities Equity Research - Research Analyst

Okay, thanks for that detail. My second question, this claim from Gaia Power, can you talk a little bit about that to the extent that you're able and some context on the royalty agreements. Have you -- have any royalties been paid? What context can you give us there?

Ian Edward Robertson - Algonquin Power & Utilities Corp. - CEO & Director

Yes. Well, let me start by, I would say, what the punchline is, from our and our legal team's perspective, the claim is completely without merit, so let's just start with that. But a little bit of context. Gaia Power was a junior developer who brought the Amherst Island project to us more than a decade ago. And in return, he was entitled to a small royalty interest in the project. And as you know, the project was only commissioned mid this year. And under the terms of royalty agreement, actually, no royalties actually, owing technically yet. So I got to tell you, we were completely surprised at the claim. It's -- it -- as I said, we've looked through it, don't see any merit in it whatsoever but -- and legal counsel, sort of said, well, given the lack of merit in it, if you don't want to put it into your disclosure, that's fine. But I think our thought was just out of the -- in the interest of transparency, we threw it in there. So it was there. But from our perspective, and as I said, I'll end with a punchline is, the claim is without merit.



Operator

The next question is from Rupert Merer with National Bank.

Rupert M. Merer - *National Bank Financial, Inc., Research Division - MD and Research Analyst*

So looking through your disclosures on development pipeline, you have a few wind projects you're looking to move to construction sort of 2020, 2021 timeframe. Can you talk about any significant hurdles you may have to get those projects to construction? And how many of them do you think will graduate out of that group?

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Well, I think -- I mean, it's an insightful question that to 2020 is shaping up to be, I'll say, a gold rush year for wind production. Right now, estimates are somewhere between 12 and 15 gigawatts worth of new production, and not surprising, because that is the end of 100% production tax credit. And given where the energy market's trading, that the next year drop to 80% is obviously material. So what that means is some of the challenges that sit in front of developers who want to get their projects done, I guess, are kind of generally twofold. One is you've got to lock up the turbines and you have to lock up delivery slots. And second of all, surprisingly, you have to lock up a balanced plant foundation and most importantly, crane contractors, because you could imagine a crane needed to lift the cell on the top of 120-meter tower is somewhat complicated and unusual piece of equipment. With respect to the first challenge, we're pleased that we have been able to negotiate arrangements, primarily, with Vestas to be able to supply the incremental turbines needed and turbine components needed on top of the Safe Harbor turbines that you know we purchased at the end of 2016. And so, I think as we look down the road for all the projects that need to get done, and they're not just -- and you can appreciate, they're not just on the nonregulated side, we're building 600 megawatts worth of wind within Empire. And so we've been able to lock up turbine delivery slots and frankly, with respect to the second challenge, we have negotiated or in the process of negotiating agreements with various BOP contractors to secure cranes. So I think we're in pretty good shape for completion and it's going to be in the neighborhood of about 1 gigawatt, maybe a little bit more of projects in 2020 and that's comprised of the 600 megawatts of wind in the Midwest and then the other projects that you've seen identified in the MD&A. So fingers crossed, I think we're taking the steps -- and it feels a little weird that we're having this conversation in the fall of almost 2 years before the deadline. But man, I think if you leave it to the end, you're going to find yourself not in a very good shape. So anyway, I think -- I don't -- Rupert, if that's the kind of the color you're looking for, but we're on it.

Rupert M. Merer - *National Bank Financial, Inc., Research Division - MD and Research Analyst*

Great. Thank you. As a follow-up to that, for David, you talked previously about looking at a cash tax horizon, I think, 2021, 2022. If you go ahead with this 1 gigawatt of new construction, how far can that push out your horizon to cash taxes?

David Bronicheski - *Algonquin Power & Utilities Corp. - CFO*

Well, I think it could push out a fair bit. But I mean -- I think if we did nothing as the horizons 2021, but we have the ability to be our own tax equity provider in a number of U.S. wind projects. And so we're reasonably confident that we can continue to keep pushing it out. I mean, I always like to point out, if you would've asked me 3 years ago what our tax horizon would be, I probably, 3 years ago, would have said 2019. Now we got it out to 2021 and I think we got -- we're confident we can keep pushing it out for a little bit longer.

Operator

The next question is from Nelson Ng with RBC Capital markets.



Nelson Ng - RBC Capital Markets, LLC, Research Division - Analyst

Just a quick clarification on the tax reform impact. I think, David, you mentioned that the net impact would be about 3% to 5% of 2018 EBITDA, but I think previously you guys flagged that it would be 2% to 3% of EBITDA. Could you just clarify the tax impact? Or was there new agreements reached that kind of pushed the impact a bit higher?

David Bronicheski - Algonquin Power & Utilities Corp. - CFO

Yes. I do apologize, I guess, I misspoke them. Because the impact that we're experiencing is completely consistent with what we're expecting. So 3% is definitely kind of what we're seeing and it is, I think, what we previously communicated.

Nelson Ng - RBC Capital Markets, LLC, Research Division - Analyst

Okay. And that is back end -- that's towards the back end because it's just been implemented, right or -- implemented during Q3 in October, right?

David Bronicheski - Algonquin Power & Utilities Corp. - CFO

Yes. Yes, so that's right. So the Missouri rate order came over this summer, we implemented it beginning August 30 and that will continue to roll through our results. But keep in mind that given all the other utilities that we have, we're always going to be having other rate cases that are going to be coming into the mix as well and as we said, for over 90% of our customers, tax reform is in the rearview mirror.

Nelson Ng - RBC Capital Markets, LLC, Research Division - Analyst

Okay. Got it. My second question relates to the ATN3. So I think you alluded to how there's already project-level debt and construction already started but it was halted. Did I get that right?

Ian Edward Robertson - Algonquin Power & Utilities Corp. - CEO & Director

Yes, I haven't heard the question mark yet but you are correct, yes, Nelson. But -- Yes.

Nelson Ng - RBC Capital Markets, LLC, Research Division - Analyst

So can you talk about how, like what the timing was and what the timing will be in terms of when did construction start? When did it halt? When do you think it can get going again? And I think the completion date was in -- is it 2020 or 2021?

Ian Edward Robertson - Algonquin Power & Utilities Corp. - CEO & Director

So that project got going -- I'm sure it was in development before this, but the wheels fell off the wagon after construction has start -- had started. And I believe this that the construction was halted, I want to say in late 2015 or early 2016, it was probably in 2016. It was before we got involved in it. And it rose not surprisingly because with the financial troubles of Abengoa, certain covenants weren't being maintained with respect to the project-level debt which has been sourced locally and in Peru and consequently, project construction halted. The majority and I mean, like 90% of the supplies and equipment have been procured and have been warehoused. And so -- but 2 things were required in order for construction to resume and I guess, we're pleased that one of those is in the rearview mirror and that is an agreement with the project lenders as to what needs to get done to rectify the defaults under the project debt and allow the project to continue. And the second one, which is now in front of us is management of the process of updating the concession agreement pursuant to which revenue is earned from the project. You can imagine that the dates that were originally set in the concession agreement aren't going to be met. Now to be specific -- to specifically in response to your question, I would think that -- well, we don't really have a clear idea of how long this administrative process is going to take with the Peruvian



government, I think probably late next year [we're] seeing construction resume and it's probably got 24 months in front of it or so. So that feels like 2022, that project would -- that \$0.25 billion would -- have been invested. I don't know, is that what's kind of the color you were looking for?

Operator

The next question is from David Quezada with Raymond James.

David Quezada - *Raymond James Ltd., Research Division - Equity Analyst*

So my first question here just on the international opportunity here. I mean there was some commentary in the MD&A that suggests once the project reaches COD you'll decide whether or not it'll be held by Algonquin, offer for sale to Atlantica or remain in AAGES. Just wondering if you could remind us of what the circumstances would be where a project would be optimal to stay in AAGES. If that -- whatever happened I know that there's some interplay between cash earnings and EPS between Algonquin and Atlantica, but just on the AAGES side, just to clarify there.

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Sure. Maybe give a little bit of color and a little bit of context. A project that fits into Algonquin proper, obviously, needs to be optimally financed using the on-balance sheet finance structure that Algonquin has and which is consistent with and a contributor to our investment-grade BBB flat credit metrics. Clearly, one of the distinction characteristics of Atlantica and, frankly, AAGES would fall into the same category is that they are users of, may be arguably skilled at, project financing, project-level financing, which is generally secured solely by that asset. And I think that's an important flexibility that our investment Atlantica -- we contemplated when we made that original investment. And so part of the decision as to where the project will end up is whether the project -- what is the optimal financing and capital structure for that project. You can imagine a project that happened to have a non-U. S. dollar denomination, probably is a strong candidate for project level financing sourced locally in the jurisdiction in which that project exists, and consequently would probably be a candidate to be held in Atlantica or potentially continue to be held in AAGES. But I would say that's the lower probability location, because Atlantica is the most likely project finance locale. And if the project happens to be optimally financed using our on-balance sheet on-structure, then that project would show up in Algonquin. David, I don't know if I've confused things or clarified them for you.

David Quezada - *Raymond James Ltd., Research Division - Equity Analyst*

No, that's really good color. Thank you. And then just -- my other question here, there was some commentary with the Atlantica release on potential U.S. wind project that Algonquin would go forward on with them. Just wondering if there's any high-level context you can provide on that process, timelines and the funding, et cetera.

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Sure. What a great segue from my previous answer. As we look at -- as optimally financing projects globally using project financing, well, that piece also applies to North America. And I think what Santiago, is making reference to is, are there projects that we could partner up with Atlantica in some way to be able to bring the project financing tool to bear in North America for North American wind projects. Atlantica, clearly, obviously has the North American presence, owning the largest solar and storage project in the U.S. down in California -- Arizona, actually. But -- and so we've been trying to make maximal use of the synergies between Atlantica and ourselves as we think about investing in North America wind and solar projects. And so what Santiago was alluding to is -- there's a very specific project, which is actively under discussions. It would be included in the projects that Rupert was speaking to of 2020 construction projects. And so we think it'll be -- it's going to be great. And I would offer up again as a teaser for our Investor Day come to Toronto or come to New York and you'll hear more about it. David, I don't know if that's helpful.

Operator

The next question is from Ben Pham with BMO Capital markets.

Benjamin Pham - *BMO Capital Markets Equity Research - Analyst*

On the Atlantica 16.5% pending transaction, is Algonquin surprised that it's taking this long to close when you look at the first tranche and the timing?

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Yes. I will say it is. The good news is I think we're just about out of the tunnel. Well, actually, let me say Abengoa is just about out of the tunnel. We've been waiting by the end of the tunnel for them to emerge. But maybe give a little bit of color behind it. There are a number of regulatory approvals that are required for Abengoa to sell, not too much for us to buy, but Abengoa to sell and the 2 primary approvals relate to consent of the tax equity provider for the U.S. solar projects and the Department of Energy in the U.S., given its involvement in the development and funding of the Solana and Mojave solar projects that I spoke of earlier. I -- my understanding is that -- and while we're sort of spectators to it that the hurdles have largely been gotten over and consequently we're expecting closing this quarter. It has taken longer than we had hoped, but I guess, I don't want to say not surprisingly dealing with a government entity like the Department of Energy, maybe it just took longer. And so as I said, as spectators to the sport, I guess, we're glad that the game is coming to an end, Ben.

Benjamin Pham - *BMO Capital Markets Equity Research - Analyst*

Okay. That's good to hear. And can I ask you on the industry -- energy theme we're seeing, some of your peers probably leveraging up too much through the last cycle, M&A so now [it's] all selling assets and whatnot. And you guys kind of avoided that, didn't lever up and your balance sheet is in a good shape. But how do you guys think about recycling now with water utilities paying massive premiums for gas and then you've got some wind assets in Canada trading 12x, 13x EBITDA. How do you guys think about that at the moment?

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Well, in my mind, in some respects they're, I'll say 2 separate opportunity sets. Clearly -- and I don't say we're pleased, because it makes it sound like it was luck of a draw that we're pleased that we managed our balance sheet, maybe, arguably, our M&A aspirations, in a sufficiently disciplined manner so as not to get ourselves in the situation where our credit metrics were stretched. And so we didn't -- we don't find ourselves in this situation of having to sell assets. I think there is an opportunity that could be created by that. And as we think about some of the utilities that might come for sale, certainly, we want to keep our eye on those, though I will -- but always against the backdrop Ben, and you've heard me say this, which is, we only want to do stuff which is accretive. And when I say accretive, it's like accretive on a bunch of dimensions. Obviously, EPS and growth profile, but one of them is credit metrics. And so I don't think you would ever see this organization say, "Oh, that acquisition is so accretive that we have to threaten a potential downgrade of our credit metrics in order to achieve it." So as I said, I don't think it's by luck. But I think there is an opportunity set coming as a result of some of that. Your second question in terms of, should we be recycling some of our capital into -- by selling into some of the strengths. Well, clearly the strength that you're seeing in selling the wind and perhaps more notably, I think, the Hydro generation, yes, we look at her all the time. And I think the question one needs to ask (inaudible), first of all, we're never in love with an asset. Everything is for sale always. The question we ask ourselves is are we buyers, holders or sellers of anything in the portfolio? And while certainly some of the prices on -- when u watch people's gas get sold, that would definitely not induce us to be buyers of that and the question is, do we want to sell into that strength. And while nothing comes to mind right now. And I think when you look at our results, part of the benefit, which has made this organization been able to post stable results, is the diversification of our portfolio. And while, yes we could -- might be able to sell down some of the assets, clearly one of the costs to that is the breadth of diversification. But I think trust us Ben, that -- and maybe the answer is, we're never in love with an asset and we're always evaluating whether the strength in a particular market has caused us to be a seller into it or a buyer into it. And right now, it certainly caused us to sit on the sidelines for some opportunities, but it hasn't quite pushed us to taking advantage of selling some of these things. I don't know if that's helpful, Ben.

Benjamin Pham - *BMO Capital Markets Equity Research - Analyst*

It just seems like it's a great sellers' market right now, despite rising interest rates, so I just wanted to get a good pulse on that from you guys.

Operator

The next question is from Rob Hope with Scotia Bank.

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

Wanted to follow up on Ben's question, and then actually just touch on the potential for Atlantica to coinvest in a U.S. wind project with you. I guess, more holistically, when you do look at your U.S. nonregulated generation assets, down the line, could we see further involvement in Atlantica and then ultimately a separation between the utility in the generation business?

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Well, it's an interesting thesis. I think, we -- right now, we've only taken it to the point where if the optimal capital structure for a particular project involves project debt, then Atlantica might be a great partner for us given their expertise in and use of that financing vehicle. Whether we would transfer everything that -- right now, clearly, we think there are assets that are optimally held within -- on the Algonquin balance sheet. If you're asking the question is, "Is that a possibility." Yes, it would be. I think -- though, I mean, let's caution a little bit, which is you know that part of our thesis is, we don't want to consolidate Atlantica onto our books and so I think that probably gives us natural limitation as to how big our interest would be. Maybe that is a follow-on to Ben's question which is if you can sell an asset into someone who -- which you already hold an interest, maybe that's a great way of eating your cake and having it too in that going forward. So right now, I don't think -- I wouldn't want to attribute the thought of participating with Atlantica in that wind project that Santiago disclosed as the harbinger of a more strategic realignment of the organization, way back to Ben's question, we like the diversification. I think it's providing value for our -- for all of our stakeholders and so, right now, it was really a thesis about how to optimally participate in that market.

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

All right, thank you for that clarity. And then just moving north of the border, just in terms of putting more capital to work in Canadian wind, when do you think you could or do you think you'll consolidate the rest of Amherst and when could we see shovels in the ground for Blue Trail (sic) [Blue Hill]?

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Okay. So -- well, Amherst is done, I think. So that's -- giving some clarity on that would be 2019, I think it's probably a reasonable timeframe. We're just wrapping up kind of law final cleanup of roads and stuff like that. So that's imminent. In terms of Blue Hill, I think construction right now is likely to start -- not next year, but probably the year after. And frankly it -- what's delaying it is a certain, I'll say nothing on our side. You can imagine there is natural investment that needs to be made by SaskPower to be able to accommodate that. And so the -- I think this is just, I'll say, the natural delay in utility investment for the interconnection. So I think probably a 2021 start and 12 months on that, maybe '18, it'll be done. Certainly what you will hear about it at our Investor Day, and if it sounds like I keep plugging it is we'll give you a little bit more color for that asset and obviously it will be a contributor. We spend time on what the 5-year planning horizon looks like for us from an earnings and EBITDA growth perspective. It will be factored into that 5-year horizon. We'll give you a little bit more color on the specific timing. I don't know if that's helpful, Rob, to give you -- how things are unfolding.



Operator

The next question is from Mark Jarvi with CIBC.

Mark Thomas Jarvi - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research*

I just wanted to go back to the comment about Atlantica, maybe investing in that 200-megawatt wind project. Why wouldn't that be done in AAGES and then drop down into Atlantica like why wouldn't you participate earlier on?

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Oh, sorry. It is, Mark. I think the step just got missed. Clearly, that is the thesis. I think, obviously, Santiago was looking at it as he -- when he was describing it, that's kind of a COD involvement. So yes to what you described. There's been no change in thesis that AAGES would be developing it and maybe then getting right back to -- and I don't know if it was Nelson's question or perhaps Rupert's, which is there's an opportunity for a project that AAGES finished off to be jointly held by Algonquin and Atlantica, post its COD. So maybe its not binary that it ends up in Atlantica or ends up in Algonquin. But yes, Mark, you are correct. It flows through AAGES.

Mark Thomas Jarvi - *CIBC Capital Markets, Research Division - Director of Institutional Equity Research*

All right, thanks for clarifying. And I then just wanted to go -- in terms of the sort of the -- this counterbalance you guys have seen where strength in utilities has offset some of the weakness in the renewables [paying] on weather patterns. With decoupling that comes in Missouri, how do you guys see that evolving in terms of that counterbalance going forward?

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Well, it's an interesting question and arguably, they're both God's will. And the question is, is God's will correlated there i.e. it is God's will that influenced the higher cooling degree days in Missouri somehow correlated with the lower winds that we suffered in Texas, as an example. I don't know if it is or isn't. If it -- it's clearly there -- they are clearly there -- if they were correlated, then you're right, you probably wouldn't want decoupling. I don't think they are and I think just, in general, decoupling lowers the riskiness of one of the, I'll call it, assets in our portfolio. And if you use your portfolio theory, reducing the risk unless you had some perfectly negatively correlated factors in your portfolio. You've actually improved the portfolio by reducing the risk of any individual security there. So we -- I don't like to explain why weather influenced the outcome of our utilities. Our customers don't like to pay higher bills just because it happened to be hotter in the summer. So it's all good, frankly, from everybody's perspective, decoupling. And so we are pleased the decoupling came in. But as I thought about it a little bit more, I don't think it negatively impacts the overall, I'll call it risk of the portfolio. It's an interesting proposition, but I have spent some time thinking about it and it really does come down to the correlation of those risks.

Operator

This concludes the question-and-answer session. I'd like now to turn the conference back over to the presenters for closing remarks.

Ian Edward Robertson - *Algonquin Power & Utilities Corp. - CEO & Director*

Thanks, very much operator. Appreciate everyone taking time to join us on the call today. Hopefully, we'll see lots of familiar faces and maybe some new ones at our Investor Day in early December. So check out our website to join up. And with that, I'll turn things over to Alice for our disclosure. Alice?

Alison Holditch

Thank you, Ian. Our discussion during this call includes certain forward-looking information that is based on certain assumptions and is subject to risks and uncertainties that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information.

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For more information about both forward-looking information and non-GAAP financial measures including a reconciliation of the non-GAAP measures to the corresponding GAAP measures, please refer to our most recent MD&A filed on SEDAR in Canada or EDGAR in the United States and available on our website. Thank you.

Operator

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

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