Capital Power
Q4 2023 Results Conference Call
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Corporate Participants

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Vice President of Investor Relations

Avik Dey
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Sandra Haskins
Senior Vice President, Finance and Chief Financial Officer

Conference Call Participants

Jessica Hoyle
Scotia Bank

Maurice Choy
RBC Capital Markets

Mark Jarvi
CIBC

John Mould
TD Securities

Benjamin Pham
BMO Capital Markets

Patrick Kenny
National Bank Financial

Operator
Good day. Thank you for standing by. Welcome to the Capital Power Q4 '23 Analyst Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Roy Arthur, Vice President of Investor Relations. Please go ahead.

Roy Arthur
Thank you, Cathy. Good morning. And thank you for joining us today to review Capital Power's Fourth Quarter 2023 Results, which we released earlier this morning. Our fourth quarter report and the presentation for this conference call are posted on our website at capitalpower.com. Presenting this morning are Avik Dey, President and CEO; and Sandra Haskins, Senior Vice President, Finance and CFO. Avik will start with a high-level overview of some of our key achievements during 2023, followed by Sandra, who will provide a financial review, including our Q4 and year-end 2023 performance.

At the end, Avik will provide concluding remarks, after which we will open the lines to the analysts to take questions.

Before we start, I would like to remind everyone that certain statements about future events made on this call all are forward-looking in nature and are based on certain assumptions and analysis made by the company. Actual results could differ materially from the company's expectations due to various risks and uncertainties associated with our business.

Please refer to the cautionary statement on forward-looking information on Slide 3 of our -- or regulatory filings on SEDAR+. In today's discussion, we will be referring to various non-GAAP financial measures and ratios also noted on Slide 3.

These measures are not defined measures according to GAAP and do not have standardized meanings prescribed by GAAP and therefore are unlikely to be comparable to similar measures used by other enterprises.

These measures are provided to complement GAAP measures, which are provided in the analysis of the company's results from management's perspective. Reconciliations of these non-GAAP financial measures to their nearest GAAP measures can be found in our 2023 Integrated Annual Report.

I would like to acknowledge that Capital Power's head office in Edmonton is located within the traditional and contemporary home of many Indigenous peoples of the Treaty six region and the Metis Nation of Alberta Region 4. We acknowledge the diverse indigenous communities that are in these areas and whose presence continues to enrich the community and our lives as we learn more about the Indigenous history of the lands in which we live and work. With that, I will turn it over to Avik for his remarks.

Avik Dey
Thanks, Roy. And good morning, everyone. Capital Power has successfully delivered on our strategy in 2023 as we power change by changing power. Over the next few slides, I will highlight some of our more notable achievements during the year and a few key trends shaping our industry. To begin, our strong financial and operating results are demonstrated by our record annual adjusted EBITDA of $1.455 billion. This was achieved through delivering record power generation of more than 32 terawatt hours in response to high demand growth in our core markets.

As we will discuss, we believe this strong demand growth will continue long term, making our asset base integral to providing a stable, affordable electrical grid for decades to come. We continue to strengthen our portfolio through the advancement of our $1.35 billion repowering project at Genesee.

In 2023, we completed the coal to gas conversion of Genesee three and continue to make significant progress on repowering, which will take our company 100% off coal. Additionally, we acquired three natural gas-fired facilities in the U.S. WECC region: Frederickson 1, La Paloma and Harquahala. These facilities represent 1.7-gigawatt of net additional capacity, enhancing our presence in these markets.

We are positioned for growth and have demonstrated this through our advancement of 380 megawatts of new renewable and storage projects. Furthermore, we advanced our ability to create net zero solutions for our customers through two new partnerships. Capital Power announced its first order for approximately 1-gigawatt of responsibly produced ultra-low carbon thin film solar modules from our partner, First Solar.

In addition, Capital Power and Ontario Power Generation entered into an agreement to jointly assess the development and deployment of grid-scale small modular reactors, otherwise known as SMRs, to provide clean, reliable nuclear energy for Alberta. From a leadership perspective, we have enhanced and realigned our executive team with the addition of four new senior vice presidents to ensure the successful implementation of our long-term strategy.

Moving on to our financial guidance and credit metrics. Our full year 2023 adjusted EBITDA of $1.455 billion was in line with our revised guidance. This result was driven by strong demand for our generation in the U.S. and Ontario markets in addition to full year contribution from Midland Cogeneration. In addition, the reduced emissions intensity for Genesee three from the coal to gas conversion I mentioned earlier resulted in year-over-year GHG compliance cost savings of about $34 million.

I would also like to highlight our growth through material M&A transactions that diversified our portfolio. We have utilized cornerstone investment from private equity partners to maintain our strong balance sheet. As at year-end, our net debt to adjusted EBITDA stood at just over 2.6x.

We will continue to capitalize our business with a strong balance sheet and liquidity to defend our investment-grade credit rating. Taken together, these financial and operational achievements demonstrate we are driving shareholder value through a balanced approach to capital allocation, portfolio diversification and decarbonization.

To put our 2023 achievements in context of our long-term efforts, here, we show how we have grown shareholder value through decarbonization and diversification. Our organization has averaged to 12.5% total shareholder return over the past 10 years. That return has been generated as we reduced the coal/dual fuel generation capacity in our portfolio from 53% to 9%. We have greatly enhanced our geographic diversification by increasing our U.S. exposure from 5% of our total capacity in 2013 to 50% in 2023 while adding significant contracted cash flow at the same time.

The outcome of this effort to reposition the portfolio has seen the organization achieve a CAGR of 11% and 8% for adjusted EBITDA and dividends per share, respectively, over the past 10 years.

With that retrospective on how Capital Power has delivered during the past, allow me to give you some perspective as to why we are excited about our portfolio and its ability to deliver value for our customers and shareholders well into the future. As we take a leading role to advance the energy transition across North America, our fleet of assets will play an integral role in providing reliable and affordable power as demand grows across our key markets from today to 2050. Here, we show that according to the U.S. Energy Information Administration, U.S. supply will increase from 1.1 terawatts to 2.2 terawatts during that time.

The trend will result in dispatchable power from nuclear, natural gas and other hydrocarbons combined being reduced from approximately 70% of the total stack to less than 40% in 2050 as renewables grow.

During the same period, peak demand is expected to grow from 0.8 TW to more than 1.0 TW and will create a reliability gap between dispatchable power capacity and peak demand. This outcome will result in greater demand for natural gas to deliver growing peak capacity to meet grid demand. Capital Power's portfolio consists of low cost, lower carbon intensity generation in large and growing population areas and positions our portfolio uniquely to meet growing electricity demand with reliable power.

Building on the theme of creating a well-positioned portfolio of assets to meet the needs of our customers and generate value for shareholders, I wanted to show some context for how our business has grown and performed from an emissions perspective. Despite pursuing a strategy for critical natural gas generating infrastructure, our carbon emission intensity has decreased at the same time as increasing our overall generation.

As mentioned, we achieved 32-terawatt hours of generation during 2023. However, the carbon intensity of this power was 40% below that of 2014. As we move into 2024, we will continue to advance more than 380 megawatts of additional renewable and storage capacity and our Genesee Repowering project, which, at completion, will result in annual CO_2 emissions reduction of over three MT from 2019 levels, and our portfolio will be 100% off coal. The net result being we are increasing our capacity while reducing our emissions.

With that, I will turn it over to Sandra to discuss our 2024 targets and some incremental detail with respect to our 2023 Q4 and full year financial performance.

Sandra Haskins
Thanks, Avik.

I would like to start by summarizing financial targets for 2024 and then provide some details around the performance that has positioned us to achieve this. Our facility availability remained strong and above target at 95% in 2023, and we expect to remain strong in 2024 at 93%, despite the outages required for the Genesee Repowering project. Sustaining capital expenditures remains relatively consistent with 2022 and 2023, but also includes additional CapEx of about $40 million related to our newly acquired U.S. facilities and Genesee Repower related outage costs of about $14 million.

Our key financial targets will remain on par with 2023 for both adjusted EBITDA and AFFO with midpoint of $1.455 billion and $820 million, respectively.

Strong fleetwide performance with an average facility availability of 93% combined with results of our Alberta commercial portfolio optimization led to reported adjusted EBITDA of $313 million for the fourth quarter, an increase of 3% year-over-year. This offsets the impact of lower power prices captured by our Alberta commercial segment compared to Q4 2022.

AFFO of $162 million in the quarter is up 16% from a year ago. Strong adjusted EBITDA results and lower shutdown capital spend in the quarter were offset by higher current income taxes compared to 2022. As previously noted, we had a record year with adjusted EBITDA of $1.455 billion, up 8% over the same period in 2022.

The benefits of a diversified fleet were highlighted in 2023 as the growth was primarily driven by strong contributions from our U.S. contracted segment, including a full year's results from MCV acquired in September 2022.

Furthermore, results from the optimization of our Alberta commercial portfolio offset the impact of lower power prices captured compared to one year ago. AFFO of $819 million was down 3% year-over-year due to the impacts of higher current income taxes and finance expenses, offset by our strong adjusted EBITDA results, lower shutdown capital spend and preferred dividends paid.

This slide provides an overview of the capital allocation highlights for 2023. Our leverage and liquidity remains quite strong, allowing us to maintain our investment-grade credit ratings of BBB- and BBB low for S&P and DBRS, respectively. The financing of our recent U.S. facility acquisitions represents the largest capital markets transaction in the company's history through a $400 million subscription receipts offering and the completion of over 850 medium-term notes, which was significantly oversubscribed.

Our acquisition was complemented by the support of two key private equity investors: BlackRock, which is a 50-50 JV partner at Harquahala; and AIMCO, which is now a significant common shareholder.

These partnerships provide a strong endorsement of our grid critical natural gas strategy and better position us to continue delivering on our strategic pillars. In addition, to further stagger our debt maturities, we executed a $350 million MTN in September with a 5-year term. We advanced our decarbonization efforts by investing $100 million of CapEx in new renewable projects and storage in addition to $400 million towards our Genesee Repower project during 2023.

In total, we completed $1.6 billion in M&A activity by investing in dispatchable grid critical natural gas facilities inclusive of the closing of our acquisition of La Paloma and Harquahala in February 2024.

With respect to returning capital to shareholders, 2023 marked the tenth consecutive year where we delivered a dividend increase, and we continue to have a payout ratio below the targeted range. We maintained our dividend guidance for a 6% annual increase in 2025. With respect to our continuing journey toward net zero, we spent [$28 million] on innovation, and we'll be leveraging our partnership with OPG for the feasibility assessment of SMRs.

I'll now touch on our Alberta power and natural gas hedge positions, which are shown as of December 31, 2023. Since we last discussed this slide as part of our release of the 2024 guidance, our power hedge volumes for 2024 remain unchanged, but we have increased slightly in '25 and '26.

For 2024, we are still at 10,500-gigawatt hours, while 2025 and 2026 have gone up by 500-gigawatt hours each year and are now at 9,500- and 8,000-gigawatt hours, respectively. The weighted average hedge prices are now in the high $70 per megawatt hour across all three years. The hedge positions include long-duration origination contracts as another mechanism to manage price risk.

The graph on the left shows the relative magnitude of hedges that are long duration. Our natural gas hedge volumes remain unchanged in 2024 and 2025 at 70,000 TJs and 60,000 TJs, while 2026 has increased slightly from 50,000 to 55,000 TJs.

Our current hedge position offers favorable pricing relative to Alberta forward prices and locks in natural gas at or below strip gas prices at a time where domestic natural gas demand continues to rise through gas-fired power generation and LNG exports. I will now hand it back over to Avik.

Avik Dey
Thank you, Sandra. We remain steadfast in our focus to deliver reliable and affordable power today while building decarbonized power systems for tomorrow and creating real net zero power solutions for our customers. For 2024, we are focused on delivering safe, reliable power, while executing on our major turnaround schedule and integrating our new U.S. acquisitions.

We will advance our Genesee Repowering project to successfully move off coal, continue construction on over 560 megawatts of total incremental capacity and focus on expanding our U.S. renewables. Our team of innovators will continue to prioritize the game-changing low-carbon solutions, including our pursuit of CCS and SMR initiatives. I'm excited for the work we will achieve in 2024 to advance our path to net zero by 2045.

We'll be hosting our Investor Day event in Edmonton on May seven and eight for analysts and institutional investors. On day 1, the experience will include a tour of the Genesee Generating Station site and our massive repowering project with an evening reception thereafter.

On day two, we will host a luncheon with the executive team at the conclusion of the formal presentation in the morning. We really look forward to welcoming you to Edmonton. Lastly, I encourage you to view our 2023 Integrated Annual Report for further details on our 2023 performance, including full year highlights and ESG disclosures. With that, I'll now turn the call back over to Roy.

Roy Arthur
Thanks, Avik. Cathy, we are now ready to take questions.

Operator
(Operator instructions) Our first question comes from the line of Patrick Kenny with NBF.

Patrick Kenny
Avik, I'm not sure if you're able to comment yet on Alberta lifting the pause on new renewables this week. But I guess declaring certain no-build zones, just wondering if there are any developments within your 3.4-gigawatt pipeline that might be impacted? And also curious your thoughts on what these restrictions could mean for the Alberta power market just in general over the next coming few years?

Avik Dey
Thanks, Pat. There's limited comments we can make at this time because we're still awaiting the official response. But we've seen the press release, and we think that the announcements are consistent with what market expectations were in terms of restricting land use. I think overall impact on the market, as I've said before, I think the pause was to understand land use, look at things like interconnect and just establish what the province's view was of marrying renewable development with grid integrity, reliability and affordability. So it seems like everything is consistent with that.

And I think long-term impact on the market should be negligible. It likely has no impact on our existing portfolio or our pipeline.

Patrick Kenny
Okay. That's great. And then, I guess, with respect to the clean electricity regulations, there's obviously been quite a bit of pushback from industry and various provinces. But wondering if any of these potential amendments or modifications still to come, might change your long-term economic outlook for your portfolio either in Alberta or Ontario and as well if there's anything in there that might further support or help accelerate the timing for a positive FID on your Genesee CCS project?

Avik Dey
I'll take the last one first on CCS. We don't see any positive developments on advancing CCS with respect to the CER movement. On CCS, maybe I'll just take that question and expand on it further. We have not advanced our CCS effort at Genesee. We continue to work with government, discuss alternatives to a CCFD, but we haven't been able to materially move that forward on a commercial standpoint. So we're in the same place today as we were last July when we stopped our spending on the technical side of CCS.

In terms of the CER, overall, we were early in terms of providing our comments, both publicly and privately to government on what we thought were the pitfalls of the CER. We continue to believe there's a workable framework there for government and for the country if you accommodate the provincial nuances of where our baseload generation comes from. So we're -- we think that the announcement was a positive step towards reconciling and accommodating some of those differences, but there's still quite a bit of work to do.

For us, this wasn't a document that you could horse-trade one factor against the other. Fundamentally, we had to accommodate meeting baseload demand in Alberta, for example, because of our reliance on natural gas for baseload, we couldn't just have one or two accommodations. You couldn't just meet the peaker requirement. You couldn't just meet the end of prescribed life. You had to do all of it so that we could march towards a viable net zero target. Does that answer your question, Pat?

Patrick Kenny
Yes. I think that's great color. Obviously, more to come down the road. One last one for me, if I could, just for Sandra, on the funding front. Any update on bringing in partnerships here to help fund your CapEx budget for the year? I know just looking at the recent disclosure, it looks to be somewhere in the $300 million to $400 million range, is what you're looking for?

And then maybe just an update as well on your debt capital market needs for the year, both hybrids and MTNs?

Sandra Haskins
Yes. So when you look at the funding that we have to do this year, there are the refinancings that we have with the reset of our preps, which we expect will come out with a larger offering sometime during the year to help with the funding of the development CapEx that we've got as well as the tail piece of the acquisition that wasn't funded at the end of 2023.

We also have another MTN in September that we'll just refinance. So as far as partnerships, we are looking at some partnership opportunities on certain assets and development projects that we have, but nothing at this point that we would be announcing with respect to that aspect of our funding.

Patrick Kenny
But in terms of targeted timing, are you looking at kind of midyear to secure those partnerships or...

Sandra Haskins
Mid to the back half of the year, yes.

Operator
This question comes from the line of Ben Pham with BMO.

Benjamin Pham
I wanted to ask on Slide 14, you have your gas hedging and looking more specifically the natural gas prices side of things. It looks like the market is heading to a structural change and pricing moving higher over time. Can you comment just as gas prices go up into 2025 and '26, how do you think Alberta power prices could respond to that? And does that change your hedging policy, whether it's on the power side or even on the gas side of things?

Sandra Haskins
Thanks, Ben. So yes, we do look at both power and gas sort of in tandem. And as we see natural gas go up, the expectation is that the variable costs will increase on the power side and that will drive up pricing. So you should see a correlation between natural gas and power as we move out. When we're hedging, we look at both sides of the equation.

So from a spark spread perspective. And so there is attention given to both of those dynamics. But in general, feel that there is a stronger correlation now that there's no coal in the market than there was previously between power and natural gas.

Benjamin Pham
Can I follow up with that? And that's helpful. Just more of -- it is a hard correlation then -- there maybe a bias to not be as hedged as maybe you've been in the past?

Sandra Haskins
I think if the question becomes whether or not you lock in the gas at the time you lock in the power so that you're achieving a spark spread, but there is -- there could be a strategy around that depending on your view of where gas is going relative to power. And also, I'd say that the liquidity, as you look out farther between those two, are quite different as well. Gas being a much more liquid market in the longer term to transact than power.

Benjamin Pham
Okay. Got it. And if I may -- I had a question -- last question on returns between renewables and maybe mid-life gas, whether it's expansions or M&A. Could you update that on what you're seeing maybe just versus last year? And I'm just thinking about these many solar projects that you've written down.

Sandra Haskins
So with respect to returns on natural gas versus renewables, is that the question? So I think when we're looking at returns, there's a number of things the contract length. So there are elements of fuel type that would be taken into consideration. We see that natural gas continues to have strong returns. The renewable market is still coming out of periods of strong or large CapEx spending.

So if you're referencing the write-down of our solar projects that we had in North Carolina, certainly, you would need a much higher pricing today for those projects as you rebid them back into the market than you would have seen. So not seeing that the returns on renewables are necessarily shifting. But certainly, the PPAs that would be required to achieve those returns are being driven by higher capital costs, and we've seen those dynamic changes in the renewable market right now.

Operator
This question comes from the line of Maurice Choy with RBC Capital Markets.

Maurice Choy
Just sticking with the CER theme of questions here. And I know that Avik mentioned how we kind of horse-trade one factor over the other, and you need improvements on many fronts. Does this cause you to rethink your allocation of growth capital between the U.S. and Canada? And was that the allocation between gas and renewables?

Avik Dey
I think it doesn't change our view on gas and renewables. I think it does shift our focus on U.S. versus Canada. So we see a massive growing opportunity to not just acquire gas assets but optimize and expand our existing fleet as well as a growing opportunity around renewables. To Sandra's point, we haven't seen an expansion in returns in the U.S. as a result of IRA, but we're seeing PPA prices respond so that we can still make attractive rates of return on renewables in that market. That's why we entered into the First Solar partnership. So I think that given the size of the market, the liquidity of the market and the growth that we're seeing in those markets, we'll continue to see more opportunity there to reallocate growth CapEx towards the U.S.

Maurice Choy

Got it. And just a quick follow-up and maybe a little bit of a preview to your Investor Day. Avik, as you continue on your tenure as CEO and start laying down the path for the company, if you were to paint a picture of what your company would look like three to five years from now versus where it is today, but what percentage changes in terms of exposure or what kind of picture should we be expecting?

Avik Dey
Maurice, if I may, I'd love to defer that to me when we have our Investor Day. But I think what you've seen from us over the past six months is what you're going to see as we formalize and articulate a longer-term strategy, which is going towards those markets that are focused on more growing reliable and affordable electricity needs and playing in those arenas that we feel like we can take advantage of our core competencies around operational excellence, around utility scale generation.

So I think one of the things we as a company have great conviction around is the absolute criticalness of natural gas as part of reliable, affordable grids, one.

But two, most importantly, our belief that a net zero future doesn't happen without natural gas. So our ability to go acquire, optimize, expand natural gas as well as continuing to build renewables and then defining our net zero pathway is really what we're going to articulate in May where we're going and how we're going to do it.

But it will very much look like expanding upon what we've always been doing. I think the only direction shift will be -- we may be more directive about our focus on which growth markets will pursue, which I've telegraphed to you today just now given our growing focus on the U.S. market.

Maurice Choy
Got it. That makes sense. And maybe just finish up on what you're focusing on in terms of markets. Can we -- can I just get your thoughts on markets that obviously is not necessarily a focus right now, but you do have exposure to, is there an opportunity for you to optimize your portfolio by selling any assets business environment to do so recognizing, of course, that rates have come down a little bit?

Avik Dey
I think I'll just repeat comments that Sandra has made in the past. I think we are looking at capital recycling opportunities. And I think through normal course, we'll always look at opportunities to optimize the portfolio, but no specific asset sales in mind today.

Operator
This question comes from the line of Jessica Hoyle with Scotiabank.

Jessica Hoyle
So just to start, the 2023 was obviously a busy year for acquisitions for Capital Power. So given this, just what are your thoughts on further M&A? Or does the organization need some time to integrate these recent acquisitions?

Avik Dey
Thanks for the question, Jessica. We -- I mean, M&A has been a cornerstone of our growth strategy for a long time. It's something we're good at. It's something that we can use as a tool to create shareholder value. So today, we are very much focused on integrating our three new assets that we acquired, but you can expect that M&A will continue to be a big part of our strategy as we go forward.

Jessica Hoyle

And just moving over to the Alberta power market. Just has there been any change or update on your conversations with the government just regarding market reforms or anything on that side of thing?

Avik Dey
No new update from our standpoint. We are very much looking forward to Minister Neudorf's comments at the IPPSA Conference in Banff a week from now. So -- but as we've said in our past calls, we think the focus on reliability and affordability and the results of the studies that the government has facilitated, we think will be constructive. We think that the energy-only market will continue to exist and be preserved, and we're expecting to see tweaks to that, but very much looking forward to Minister Neudorf's comments in a week to give us more color.

Operator
This question comes from the line of John Mould with TD Cowen.

John Mould
Maybe just starting with your development efforts and prospective pipeline. You've got a, I guess, we could say a series of clusters of markets that you've been active in on the development front where you've got projects. I'm just wondering if there are specific markets that are most attractive right now for your prospective development dollars where -- maybe you're considering spending a little more to advance those projects?

Avik Dey
Thanks, John. Obviously, the near-term pipeline over the next two years, in particular, on renewables and batteries is pretty focused on Alberta and Ontario and executing the projects that were already in construction on. So the pipeline for '24, '25 in terms of capital deployment, we'll be focused on those.

And then secondarily, our shift in focus on capital allocation on the renewables front is driving towards delivering projects against our partnership with First Solar on the panels.

So I think that's the shift that you'll see in capital allocation on the renewable side is our focus on U.S. solar in particular and optimizing against the existing pipeline that we have. So the shift -- you won't see a shift in direction in terms of where we're looking or specific markets. It's really how can we advance that existing 2-gigawatt renewable pipeline that we have in the U.S. market.

John Mould
Okay. Great. That's helpful. And then maybe just on your SMR partnership with OPG, I guess, two parts. One, can you just give us a sense of like what your annual expected spend looks like on this assessment process over the next couple of years?

And secondly, what are the key outputs you're looking for from this process to inform whether you take whatever the next steps you're contemplating in bigger picture considerations of SMR involvement in Alberta?

Avik Dey
Yes. Thanks. We're very much excited to partner with OPG first and foremost. They're a world-leading nuclear operator from an efficiency and safety perspective. And in (technical difficulty) country here in Canada, we've been a leader on safety, regulatory and design to facilitate nuclear. In terms of spend, we haven't indicated a spend level publicly, but it's immaterial.

What we're really focused on in this first two-year period in partnership with OPG is really three things. The first is OPG has spent well over five years evaluating SMRs, leveraging their 50-year operating history. They've looked at over 20 different SMR technologies, high-graded those to 6, which they then high graded to three and they selected GE Hitachi as their proven solution at Darlington in Ontario.

So the first stream for us is really technology evaluation and it's partnering with OPG to come up to speed on all of their work and then evaluate the viability of those high-graded technologies in Alberta for Alberta's needs and for Alberta's grid. So that's stream one. Stream two is working in partnership with OPG and the governments of Alberta, Ontario and Canada to evaluate what a regulatory and permitting framework should look like and could look like here in Alberta.

And then the last stream is siting. And that's working in conjunction with government and stakeholders to look at potential sites. So our goal over the first two years is to, one, determine if -- which technology could work for Alberta and what Alberta needs. The second one is hopefully advance the ball far enough with -- in partnership with government that we have a line of sight towards how and when and if an SMR could get permitted in the province. And then thirdly, hopefully, advance to a point where we at least have a notional understanding of where potential sites could be in the province.

So I think the important thing on SMRs is, in Alberta, we've never had one. We haven't had nuclear. And so this will be a 10-plus year journey. But in order to get -- if we have an ambition to have one operating by 2035, we really need to get the ball rolling now. So it is early days, but we're very excited about the partnership and hope to be able to advance the ball here over the next two years with OPG.

Operator

Next question, this comes from the line of Mark Jarvi.

Mark Jarvi
So maybe just coming back to the potential modifications of the CER, including potentially changing sort of the, I guess, start of new operations for gas readiness. If those modifications, which they kind of expressed in the letter a couple of weeks ago are correct? Does that give you the comfort to move forward East Windsor and the upgrades in Ontario? And do you plan to put capital work this year on those projects?

Avik Dey
We continue to advance those projects. We continue to believe that within -- whatever contract CER lands on that those projects will proceed.

Mark Jarvi
Okay. And then coming back to the First Solar agreement, can you remind us again of any sort of -- I believe it was '26 to 2028. But in terms of firm commitments, obligations, obviously, if you're going to have acquiring panels in that timeframe, you could be moving on some projects. Just remind me again, I guess, the firmness of that obligation and whether or not you'd bring in partners to kind of ramp up activities on those projects to fulfill any obligations on that agreement?

Avik Dey
Yes. I'll just reaffirm what we had disclosed at the time, which is it is a firm agreement to acquire panels for delivery in '26, '27, '28. We do have an existing pipeline in projects that can fulfill that, but it is a firm commitment on those panels. And we do have an ability to move those panels should we not be able to fulfill. We don't have a project to fill them with.

So it's not like we have a situation here where we'll have to agree to a solar project just because we've got panels to put against them.

Mark Jarvi
Right. So then if you -- Avik, if you think about where projects are today, interconnection to siting and just even relative economics and return expectations, would you say that you feel pretty confident that you could internally source or within the development pipeline come through with the 1-gigawatt of projects to fulfill that obligation today?

Avik Dey
I would say so -- what I would say is at the front end of '26, so on the timeline of '26, '27 '28, I think the initial delivery of panels looks good. Everything -- as we had projected, we think we'll be able to deliver and the '27, '28 pipeline is continuing to evolve.

So in terms of timeliness, I think we're on track is what I would say. But no, we do not have locked in the exact projects for '26, '27, '28 against the pipeline, but we got the pipeline. So just to give you comfort on that point, we have 2-gigawatt of projects that are in the U.S. alone.

Mark Jarvi
Okay. On the solar side of things?

Avik Dey
Yes. And those are identified projects on identified sites.

Mark Jarvi
Okay. And then kind of coming back to some of your comments and then Sandra's about either asset sales at some point, prioritization of investments, it seems like you're kind of leading into the mid-life gas strategy. I know there's nothing to announce here on asset sales in the near term. But can you run us again in terms of anything from a credit metrics, their perspective credit rating agencies in terms of asset mix, contract profiles that would limit how far you shift the mix of assets?

I know at one point, I think it was two-thirds contracted was kind of a rough mark to maintain where you guys are. Is there anything else in terms of fuel exposure or anything else that kind of goes into the framework of how you might evolve your asset mix over the next three to five years?

Sandra Haskins
Yes. So the rating agencies still look for a 60% contracted, so versus the two-thirds. So that's -- two-thirds is more what we've given as our target, and that's against the rating agencies 60% requirement. As far as fuel mix, no. There isn't anything with respect to fuel that they expect us to grow in one direction or another. So that's not part of any of the metrics that either rating agency has for us currently.

Mark Jarvi
So aside from philosophical and optimizing returns and free cash flow growth, is there anything else to be mindful of that might temper any big shifts in asset mix? Or has it really just come down to where you guys want the company to be positioned within the contract of contracted profile?

Sandra Haskins
From a rating agency perspective? No. I would...

Mark Jarvi
Or anything else from a philosophical approach to how you guys think about the business risk profile and anything like that diversification?

Sandra Haskins
So I think that we've said that we're agnostic to fuel type when we're looking

at growth, we're looking for the best allocation of capital in terms of the opportunities that are in front of us. When we select our natural gas assets, we do look for those that are resilient with respect to a longer-term need in the market.

So I think more to come at Investor Day around our longer-term strategy and our thinking there. But at this point in time, we have not set any targets for ourselves with respect to fuel type. The diversification is certainly within the hubs that we've identified as being the primary focus for us, and that's just by default that those markets fall into the criteria that we see as being most constructive for the assets that we operate.

Operator
I'm showing no further questions at this time. I would now like to turn it back to Roy Arthur for closing remarks.

Roy Arthur
If there are no more questions, we will conclude our conference call. Thank you, Cathy. And thank you, everyone, for joining us and for your continued interest in the Capital Power story. As a reminder today's presentation and webcast will be made available on capitalpower.com. Have a great day.

Operator
Thank you. This does conclude the program. You may now disconnect.