



What's at Stake for Renewable Power Developers and Generators in Ontario?

Description

Earlier this year, Ontario announced it's launching the second phase of its competitive Large Renewables Procurement Process, also known as LRP II. This process is an important component of Ontario's plan of meeting its 2025 target for renewable energy to comprise 50% of its installed capacity.

The goal of the province is to acquire 930 megawatts (MW) of energy from wind, solar, hydroelectric, and biomass sources. To put this into perspective, the first phase of this process that ended in April 2016 awarded 454 MW worth of contracts valued at approximately \$1 billion.

If you're looking to play this renewables revolution, invest in these four potential contenders: **Northland Power Inc.** ([TSX:NPI](#)), **Innergex Renewable Energy Inc.** ([TSX:INE](#)), **Boralex Inc.** ([TSX:BLX](#)), and **Hydro One Ltd.** ([TSX:H](#)).

The need for long-term power-purchase agreements

Companies that construct and operate renewable power facilities require these long-term, fixed contracts to obtain project financing. This allows for less upfront equity, which can be deployed to other accretive opportunities. These contracts also greatly reduce project risk associated with selling power in the merchant market.

The potential candidates

Northland Power recently announced that it hired **Canadian Imperial Bank of Commerce** and **JPMorgan Chase & Co.** to explore a strategic review of the company. The review was aimed at enhancing growth, shareholder value, and the ability to capitalize on opportunities in clean-energy infrastructure. This could indicate that the company is interested in raising additional capital in the near term to finance potential acquisitions or growth projects.

Innergex was named a qualified applicant in the government's first phase of the process; however, it was not awarded a contract. In preparation for this next phase the company has an arsenal of projects in their pre-development stages that includes 550 MW of wind energy and 40 MW of solar energy projects. I expect the company to qualify again and hopefully be shortlisted in the bidding process.

Earlier this year, Boralex announced a \$360 million refinancing of its revolving corporate credit facility. "This refinancing will significantly improve our financial flexibility and will allow capital to be allocated to new projects, enabling us to pursue growth objectives," said Patrick Lemaire, president and chief executive officer of Boralex.

The company also indicated in its Q1 2016 financial review that it plans to pursue 400-500 MW of potential growth opportunities over the next four years.

An indirect beneficiary

Hydro One will also benefit from this process. The company now owns 98% of Ontario's transmission capacity following its acquisition of Great Lakes Power Transmission this year for \$373 million. Electricity generators must pay transmission costs to connect to the grid on top of any charges required to deliver its power to market.

Hydro One's will continue increase its share of the market. Less than six months after its IPO the company issued another \$1.7 billion worth of shares to help finance additional electricity infrastructure investments and to explore growth opportunities.

Focus on the fundamentals

The bottom line is that these companies are already supported by stable, long-term contracted revenues, free cash flow growth as their economies of scale improve, and healthy dividend yields.

Look for these stocks and their pipelines of growth projects to become more attractive if they are awarded one of these contracts.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)
2. TSX:INE (Innergex Renewable Energy)
3. TSX:NPI (Northland Power Inc.)

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