Good morning and thank you for joining us today to review Capital Power’s fourth quarter and full year 2018 results which were released earlier this morning. The financial results and the presentation for this conference call are posted on our website at capitalpower.com.

Joining me on the call are Brian Vaasjo, President and CEO, and Bryan DeNeve, Senior Vice President and CFO. We will start with opening comments and then open up the lines to take your questions.

Before we start, I would like to remind listeners that certain statements about future events made on this call 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 number 2.

In today’s presentation, we will be referring to various non-GAAP financial measures, as noted on Slide number 3. These measures are not defined financial 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 the GAAP measures which are provided in the analysis of the Company’s results from Management’s perspective. Reconciliations of these non-GAAP financial measures can be found in our fourth quarter 2018 MD&A.

I will now turn the call over to Brian Vaasjo for his remarks starting on Slide 4.

Brian Vaasjo

Thanks Randy, and good morning. I'll start off by recapping the highlights from 2018.

It was an excellent year with nearly 600 megawatts of net additional contracted growth added to the fleet. This growth came from both
development and acquisitions. We secured a 12-year contract for a 150-megawatt Cardinal Point Wind project and commenced construction of the project with COD in 2020. We completed the 99-megawatt New Frontier Wind project on time and below budget.

On the acquisition side, we acquired Arlington Valley, which added 580 megawatts of contracted growth. As part of our joint venture for K2 Wind, we were presented with an opportunity to divest our one-third minority interest at an attractive valuation that resulted in a pre-tax gain of $159 million.

At our Genesee coal facility in Alberta, we advanced our eventual coal-to-gas conversion plans by securing additional physical gas delivery capacity to the Genesee site. This will enable increased natural gas co-firing and allow for full conversion to natural gas in the future.

We had strong financial performance in 2018 that included generating $397 million in AFFO that exceeded the midpoint of our $360 million to $400 million target range. The strong AFFO performance and committed growth projects allowed us to increase the dividend by 7% for the fifth consecutive year and extend the annual dividend growth guidance to 2021.

Turning to Slide 5, I'll briefly touch on the Alberta power market and its stable outlook.

In 2018, there was a significant step change in power prices compared to 2017. This was primarily driven by the mothballing and retirements of coal plants, robust demand growth, and a higher carbon tax. The average spot price was $55 per megawatt hour in the fourth quarter 2018, which more than doubled the $22 per megawatt hour spot price in the fourth quarter of 2017. The forward prices are in a mid-$50 per megawatt hour for the balance of 2019. In 2020 to 2021, forward prices are in a mid-$40 per megawatt hour, due primarily to the lack of liquidity, but, as well, to carbon tax uncertainty and additional wind supply coming on.

I'll now turn the call over to Bryan DeNeve.

Bryan DeNeve
year of contributions from assets acquired and developed in 2017.

Normalized earnings were $1.20 per share, up 7% compared to $1.12 in 2017.

AFFO of $397 million was 10% higher than the $361 million in 2017, and AFFO on a per-share basis was $3.85 compared to $3.58 in 2017.

Overall, we had a strong year-over-year performance in all our key financial metrics.

Turning to Slide 9, I'll provide an update on our Alberta commercial portfolio positions. There have only been moderate changes to our commercial hedging profile for 2019 to 2021 since our updates at Investor Day in December.

For 2019, we are 78% hedged at an average contract price in the mid-$50 per megawatt hour range. For 2020, we're 34% hedged at an average contract price in the low-$50 per megawatt hour range, and for 2021, we're 1% hedged at an average contract price in the low-$80 per megawatt hour range. This compares to current average forward prices of $54, $47, and $45 per megawatt hour for 2019 to 2021, respectively.

We continue to benefit from having nearly 500 megawatts of gas peaking and wind to capture the upside from low natural gas prices, higher power prices, and price volatility.

I will now turn the call back to Brian.

Brian Vaasjo

Thanks Bryan. I'll conclude our comments by comparing our 2018 performance against our targets and outline our 2019 targets.

As shown on Slide 10, we met our average facility availability of 95%. Our sustaining capital expenditures of $79 million came in below the $85 million target. We reported $238 million in facility operating and maintenance expense that was within the $230 million to $250 million target, and we generated $397 million in AFFO that was at the high end of the $360 million to $400 million target range.

Slide 11 outlines our development and construction targets for 2018. We completed New Frontier on schedule, with commercial operations commencing last December, and received net tax equity financing of $125 million from the tax equity partner, JP Morgan. The project was completed slightly below its $182 million budget; therefore, the returns on the project are forecast to exceed the original expectations.

We continue to construct Whitla Wind, and the project is tracking on budget and on schedule, with commercial operations expected in the fourth quarter of this year.

On the development side, our goal was to execute contracts for the output of one to three wind projects. We met this target by executing a 12-year PPA and a 15-year REC contract for our Cardinal Point Wind project.

For 2019, I'll quickly highlight our targets, starting on Slide 12.

Our operational targets include average facility availability of 95%, which was the same target for 2018. Our sustaining capex target range is $80 million to $90 million, which is consistent with the 2018 target.

Our financial targets are shown on Slide 13. Adjusted EBITDA is forecasted to be between $800 million and $850 million, a 16% increase, based on a midpoint of the range compared to 2018 results. Our target of AFFO was $460 million to $510 million, representing a 22% increase compared to 2018 results.

Finally, our 2019 development and construction targets are shown on Slide 14.

We currently have two fully contracted wind projects under construction. This includes Whitla Wind in Alberta that has a $315 million to $325 million budget, with commercial operations targeted for the fourth quarter of this year. We also have our Cardinal Point Wind project under construction in Illinois. The budget is $289 million to $301 million, with a target to begin commercial operations in March 2020. Once completed, these two wind projects will add 350 megawatts of long-term contracted generation to our fleet. We are also targeting $500 million of committed contracted growth capital in 2019.

I'll now turn the call back over to Randy.
Questions & Answer Session

Randy Mah
Thanks Brian. Claudia, we're ready to start the Q&A session.

Operator
Thank you, sir. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question is from Patrick Kenny with National Bank Financial. Please go ahead.

Patrick Kenny
Hello. Good morning, guys. Just on Slide 9 here, looking at your hedging positions, you're still fairly open in 2020, and despite the normal backwardation in forward prices, and you mentioned the carbon tax uncertainty here, but just wondering how you're thinking about putting on additional hedges here ahead of the election in the spring, or do you think the forward prices in the mid- to high-$40s fairly reflects where spot prices will likely settle under a lower carbon tax scenario?

Bryan DeNeve
When we look at forward prices in 2020 and 2021, we feel they do materially understate where we believe prices will settle even with some changes in the carbon compliance program, so if that gap persists you probably won't see us selling much forward into the market at those current forward prices.

Patrick Kenny
Okay. That's great, and then just with respect to your sustaining capex target of $80 million to $90 million in 2019, can you remind us what happens to that range as you ramp up your co-firing capabilities at Genesee into 2020? Does that target come down at all?

Bryan DeNeve
No. We'd expect it more or less remain within that range. As we burn more natural gas, we do expect there'll be some benefits in terms of maintenance capex, but it wouldn't be material enough to make a substantial change to that projection.

Patrick Kenny
Okay. I'll jump back in the queue. Thanks.

Operator
Our next question is from David Quezada with Raymond James. Please go ahead.

David Quezada
Yes. Thanks. Morning guys. My first question, just generally in the U.S. wind market, as we start to get closer to the sunset period of the wind PTC, just any thoughts you have on how development will play out over the next couple of years as that approaches, potential supplier bottlenecks, if any, and how bidding seems to be going?

Brian Vaasjo
There continues to be significant interest in construction and development of wind farms across the U.S. Our general expectation is, is that there'll be a sort of a re-pause in the market without any real serious disruption in what you'd consider normalized development and construction activities. I think all recognize that the level of activity in 2020 is not normal. It was somewhat higher, so again, we'd expect 2021 and 2022 to be somewhat softer, but more in line with historical levels.

David Quezada
Okay, great. Thanks. That's helpful, and then maybe just one other question. What are your thoughts on potential to participate in future solar development in Alberta, as that seems to be getting going now?

Brian Vaasjo
We've always had an interest in moving into solar facilities. As you know, we do have one solar farm. Certainly, the acquisition of the Arlington facility added a tremendous amount of acreage that at some point in time we'd expect to be in solar. In addition to that, we have recently acquired a site in Alberta that is
a solar site that is well along in the permitting process, so we do expect sometime over the next few years to develop and build a solar farm somewhere.

**David Quezada**

Great. Thanks. Appreciate that. I'll get back in queue.

**Operator**

Our next question is from Rob Hope with Scotiabank. Please go ahead.

**Rob Hope**

Good morning everyone. In your prepared remarks, you mentioned the possibility of lower carbon taxes in Alberta, just given the political uncertainty there. Taking that even further into 2021, have you seen any changes in how you see the capacity market forming, depending on which government is in power at the time?

**Brian Vaasjo**

In terms of any narrative on the capacity market, we haven't seen anything from any of the parties in term of it being a political issue for the elections, so I'd say at this point that there's really – nothing has been said – nothing's been stated, and we wouldn't expect it would be the kind of issue that would become a political issue at this point in time. But would reiterate that, as evidenced by our ongoing and past results, we're extremely comfortable in a capacity market, and certainly would continue to do very well if things move that continued with the energy-only market. In a capacity market, again properly structured, that would be fine by us, so either way we would expect to continue to do very well in the Alberta market.

**Rob Hope**

Then, as a follow-up, just looking back at Q4, in your prepared remarks, you mentioned that EBITDA was below your expectations for Q4, but that free cash flow was in line. Can you just walk us through some of the drivers there, or why it was below your expectations?

**Bryan DeNeve**

In Q4, it came in below our expectations. From an EBITDA perspective, there were a couple of factors. One was wind production came in below forecast at a couple of our wind facilities, and the other driver was the accounting treatment at K2, so that became an asset held for sale at the end of October, so no longer contributed to EBITDA for the last two months of the year. So, those were the primary drivers.

The one other one was at Bloom. Because of the changed tax reform, the benefits to the tax equity investor, which is consolidated in our results, that was lower than expected, but you may recall, we renegotiated the tax equity agreement. And net-net for 2018, there would have been a positive lift in terms of EBITDA.

**Rob Hope**

All right. Appreciate that. Thank you.

**Operator**

Our next question is from Mark Jarvi with CIBC Capital Markets. Please go ahead.

**Mark Jarvi**

Good morning. Just wanted to touch on Decatur first. First full year of operations, of owning the asset. Wondering how it came in relative to the expectations when you guys acquired the asset.

**Bryan DeNeve**

Yes. Decatur had a strong year in 2018, and actually has had more generation than anticipated, so positive results relative to our initial expectations.

**Mark Jarvi**

Relative to the $16 million of EBITDA that sort of – how much incremental did you guys eek out in 2018?

**Bryan DeNeve**

Yes. It was probably $2 million to $3 million.

**Mark Jarvi**

Okay, and then just going to the Alberta commercial segment, I mean obviously some of your peakers were more active, higher average price, AECO was a bit lower. You had kind of a flat year-over-year in the quarter, but also flat year-over-year for the full year. Maybe
just talk a little bit about why maybe we’re not seeing a bit higher EBITDA and cash flow to those assets.

Bryan DeNeve
I think what we’ve seen out of the Clover Bar facilities and Joffre, they came in quite significantly ahead of our expectations in 2018, so in particular, with the lower gas prices and higher power prices, and, in effect, a much higher spark spread, that contributed to a significantly higher generation at our peaking facilities.

Mark Jarvi
Okay, and then I guess on the other side, is there anything at Genesee 3 or Keephills 3 in terms of anything in 2018 that sort of was a drag on performance, or what you guys generated this year, or this quarter should be reflective if power prices hold in here through ’19?

Bryan DeNeve
Yes. The generation should be consistent on a go-forward basis with what we saw in 2018.

Mark Jarvi
Okay. Thanks.

Bryan DeNeve
Now, I did want to just mention my response to Decatur, for the full year in 2018, it’s actually had about a $9 million positive variance in EBITDA for the entire year, so part of that was due to higher than expected generation, as I described earlier, but also we saw a positive impact due to a favourable exchange rate.

Mark Jarvi
Oh, right. Okay. Maybe just one last question for me, in terms of how much you guys had been substituting coal for gas, either in Q4, or in the current outlook right now here in the beginning of 2019?

Bryan DeNeve
We were utilizing a lot of gas during the period of low prices, during the summer and fall of last year. As gas prices have recovered, particularly with the cold weather we’ve seen in Alberta, the co-firing has dropped off completely. We do expect; however, we would start to see that resume again with lower natural gas prices as we move into the spring and summer months.

Mark Jarvi
Okay. Thanks for that.

Operator
Our next question is from Andrew Kuske with Credit Suisse. Please go ahead.

Andrew Kuske
Thank you. Good morning. Given some of the robust prices we’ve seen for renewable generation, do you see some further monetization opportunities across your portfolio?

Brian Vaasjo
Andrew, as we look at that, and I think when we look at the K2 sale, one of the other elements associated with that sale was the fact that we would move to being a one-third owner among three to be a one-third owner and the other owner having two-thirds of the interest in the facility. That was somewhat of a compelling factor for us to look at the value that came forward. As we looked across the rest of our assets, we would need an extremely compelling price, I would say beyond what we saw with K2 for a wholly-owned asset, so we’re not looking to monetize any of the balance of our renewable assets at this point and wouldn’t expect a situation to evolve where we would.

Andrew Kuske
Okay, appreciate that, and then maybe just an update on what you’re seeing with deal flow across North America as far as asset transactions that are being shopped at this point in time, things that you’re actively looking at. If you could give us any colour on what you’re seeing on a broad-market basis.

Brian Vaasjo
There continues to be a fair amount of activity related to natural gas contracted assets, and we continue to look at those, and at any point in time actively involved in a couple of them, I would say. There continue to be some renewable opportunities in terms of larger
portfolios, etc., – like the Sempra facility sale that was announced last week, and again, those depending on the particular circumstances, we may look at, but there continues to be a relatively robust pipeline overall.

Andrew Kuske
Okay. That's great. Thank you.

Operator
Our next question is from Ben Pham with BMO. Please go ahead.

Ben Pham
Okay. Thanks. On the 2019 outlook, and also the change in your hedges, with it being mid-$50s hedge for ’19 versus lows in the recent guidance, I wanted to clarify, are you modestly more positive on your outlook than the ‘18 Investor Day?

Bryan DeNeve
No, I would say we’re probably consistent with our outlook at Investor Day.

As we look at the year so far, power prices came in somewhat below expectations for January 2019, but February has been significantly above expectations, so on balance, what we’ve seen to date, and then looking over the balance of the year, we sort of have similar expectations as we would have had in December.

Ben Pham
Okay, and then on the same topic, the $500 million of capex, I was more curious how to think about if you were not successful on the development side. Is there thinking that it’s going to be acquisitions that backfill that, and if not, it looks like you put it in a NCIB. Is it, then, number three, buying back stock?

Brian Vaasjo
Maybe Ben, starting backwards. I think you can always expect we’ll have a NCIB in place. I think that’s just proper balance sheet management and dealing with – supporting share price when appropriate, etc., so I think you can always expect that, and I wouldn’t read anything in particular has changed in terms of our views around that.

In respect of our outlook for 2019, we would expect that – and I think we reflected it in our discussion in Investor Day, that we do expect that we should be able to secure a wind farm development in 2019, so we’d see that as part of the mix, and certainly, I was just commenting, we see a lot of opportunities associated with acquisitions. Like the last couple of years, we would hope and expect that we could meet and beat that $500 million target, but again, we’ll see as the year unfolds.

Ben Pham
Okay, and can I clarify one – when you think about stock buybacks, is buying back $250 million the equivalent of $500 million deployed on organic growth?

Bryan DeNeve
Roughly speaking, yes. It would be, yes.

Ben Pham
Okay. All right, and then lastly, I don’t think your part of the recent solar RFP that was announced. Just wanted to check on that.

Brian Vaasjo
That's true. Yes.

Ben Pham
All right. Okay. Thanks. Thanks a lot everybody.

Operator
Our next question is from Jeremy Rosenfield with Industrial Alliance Securities. Please go ahead.

Jeremy Rosenfield
Yes. Thanks. Just a couple of questions. First, in terms of the capacity market auction for later this year, do you expect that the AESO will have – will be able to get that schedule locked down and be able to execute a capacity market auction by the end of this year?

Brian Vaasjo
Well, they definitely continue on that path. Having said that, it's a pretty aggressive
schedule and there’s a lot to be done between now and then, so again, we’ll see.

Jeremy Rosenfield
Okay, and maybe just turning to Arlington for a second, I’m just wondering if there are any updates in terms of off-peak contracting, discussions or negotiations or outlook on that at this point?

Brian Vaasjo
Sure. Going back to when we made the acquisition and at Investor Day, we had indicated that we had expected to close fairly quickly on getting a contract for the balance of the year that would be somewhat parallel in length to the underlying summer contract. As events unfolded, there was a bit of a softening – a very temporary softening in the market in and around our closing date. I’m happy to say the market has been firming up since then, and we would expect sometime in the first quarter to secure a longer-term tolling arrangement, or arrangement for the balance of the facility that’s not contracted.

Jeremy Rosenfield
Okay, good. We’ll look forward to that, and then maybe just to clean up, there’s a note about REC sales into PG&E, and I’m just wondering if you can clarify the materiality of that, and also just linking that to Arlington, was Arlington able to wield power into PG&E and does the bankruptcy sort of remove a potential counterparty over the short term?

Bryan DeNeve
Starting with Arlington, it certainly does have the capability to sell into the California market, but I’m not aware that there’s been any sales recently or expected through to PG&E, so I don’t think there’s any implications for Arlington by the PG&E situation.

In terms of the RECs, we do sell RECs off of our Halkirk wind facility into PG&E. When we completed that facility in 2013, we had mentioned that 40% to 45% of the revenue was sourced from that contract with PG&E. Our view, currently, is that based on external legal view and what we’re seeing out there, there’s still a fairly – or a high probability that that contract will remain in place. If, by some chance, it was terminated, we would be free, then, to take those RECs and re-market them, and we would do that, most likely, in the Alberta market.

Jeremy Rosenfield
Okay, great. That’s it for me. Thanks.

Operator
Our next question comes from Robert Kwan with RBC Capital Markets. Please go ahead, sir.

Robert Kwan
Good morning. If I can just come back to the plans for the NCIB, so Brian, you mentioned it being good practice to have it outstanding, but given the step up in the capex, committed growth capex for this year, is it fair that at least your base expectation is not to materially use the nine or so million shares?

Bryan DeNeve
Subject to share price, I think that’s reasonable.

Robert Kwan
Okay, and I guess on that comment, subject to share price, certainly, tactically utilizing it, where would you look to – from the source of funds, given the committed capex program? Would you be taking leverage up, or to an earlier question, would you actually look to sell assets?

Bryan DeNeve
Maybe I can come at it from this direction, Robert. When we look at a target of $500 million committed capital for 2019, that’s over and above the capital expenditures we’re making on Cardinal Point and Whitla 1, and that incremental $500 million, we’d be able to do that without having to go to the equity market, so our balance sheet is positioned to be able to do an incremental $500 million of growth capex based on internally-generated funds. So, if that growth doesn’t materialize and if we feel our share price is undervalued, that then would be a situation that we would utilize the NCIB, and it would basically be utilizing the capabilities of the balance sheet
that would support that $500 million in committed capital growth.

Robert Kwan
Okay, got it. In terms of just coming back to the Alberta election, you touched on carbon and market structure. Just wondering, is there anything else that's on your minds as you think about how the politics could go post-election in terms of an impact to you?

Brian Vaasjo
Well, certainly the status quo is what we manage to and what we're positioned for. I did comment earlier about the fact that if a change in government resulted in continuing with the energy-only market, we'd be happy with that, and likewise, a properly structured capacity market, we'd be fine with that as well.

When it comes to the carbon side and carbon tax side, the narrative from the UCP had started off suggesting moving back to SGER. Comments of late have been more around continuing with something that's like a CCIR, but we would expect that, again, with the general direction of reducing carbon tax, that there'd be some reduced carbon tax exposure for Capital Power, but it's too early and there hasn't been enough said to appropriately assess that.

Robert Kwan
Got it. Okay. If I can just finish, and just confirming – I think it was in the explanation that you gave for Ontario and BC, the year-over-year decline, that sounds like it was largely due to you stopping booking K2 into the segment. Is that fair?

Bryan DeNeve
It would be that, combined with falling short on a couple of our wind facilities in those jurisdictions in terms of output.

Robert Kwan
Okay. That's great. Thank you.

Operator
Once again, if you have a question, please press star, and one on your telephone.

There are no further questions registered at this time. I would like to turn the conference back over to the Management for any closing remarks.

Randy Mah
Okay. If there are no more questions, we'll conclude our conference call. Thank you for joining us today and for your interest in Capital Power. Have a good day everyone.