CORPORATE PARTICIPANTS

Mr. Randy Mah
Senior Manager, Investor Relations

Mr. Brian Vaasjo
President and CEO

Mr. Stuart Lee
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CONFERENCE CALL PARTICIPANTS

Matthew Akman
Macquarie Research

Robert Kwan
RBC Capital Markets

PRESENTATION

Operator

Welcome to the Capital Power's Third Quarter Conference Call. At this time, all participants are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If you have difficulty hearing the conference, please press star followed by zero for operator assistance.

I would like to remind everyone that this conference is being recorded on Monday November 2, 2009 at 11:00 a.m. Eastern Time.

I would now like to turn things over to Mr. Randy Mah, Senior Manager, Investor Relations. Please go ahead.

Mr. Randy Mah, Senior Manager, Investor Relations

Good morning everyone. Thank you for joining us today for Capital Power's Third Quarter 2009 Investor Conference Call. The agenda for today's conference call include comments from Brian Vaasjo, President and CEO who will discuss the third quarter highlights. Stuart Lee, the Chief Financial Officer will then review the third quarter financial performance. After the opening remarks, we will then open up the lines to take your questions.

Before we begin, let me direct your attention to the cautionary statement regarding forward-looking information on slide number two. Certain information in this presentation and oral statements made during the presentation contains forward-looking information. Actual results could differ materially from conclusions, forecasts or projections in the forward-looking information and certain material factors or assumptions that are applied in drawing conclusions or making forecasts or projections as reflected in the forward-looking information. Additional information about the material factors and risks that could cause actual results to differ materially from the conclusions, forecasts or projections in the forward-looking information, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or a projection as reflected in the forward-looking information is referenced on pages 35 to 36 of the company's management's discussion and analysis dated October 30, 2009 for the quarter ended September 30, 2009, which is filed on SEDAR and available at www.sedar.com.

I would now turn to call over to Brian for his remarks starting on slide three.

Mr. Brian Vaasjo, President and CEO

Thanks Randy. Good morning. Capital Power's performance in the third quarter was solid with results in line with our expectations, despite the impact of low natural gas prices on power pricing. The consistency of the company's results reflects our core strategy that emphasizes financial discipline, a conservative mix of contracted merchants sales, a strong regional footprint and a focus on operational excellence.

Low natural gas prices continue to negatively impact Alberta power prices. In 2010, our exposure to spot power prices has been minimized with an approximate 90 per cent of our Alberta commercial portfolio hedged. There were modest adjustments to project timing and costs for our Keephills 3 and Clover Bar construction projects, which will be adding significantly to our base of generating assets in the next 18 months.

We continue our leadership role in carbon capture and storage technology through a partnership with TransAlta and Alstom Canada to develop one of the world's largest CCS projects, which I'll discuss in more detail later in the presentation. So as we look ahead to 2010, we see ourselves as very well positioned to capitalize on market opportunities, which I'll elaborate on at the end of the presentation.

Turning to slide four, this slide shows the operating performance of our plants on a segmented basis. The operating performance is shown in terms of both plant availability and electricity generation. Operating performance was strong in the third quarter, with high average plant availability in excess of 93 per cent in each of our reported segments. The overall average plant availability was 95 per cent in the quarter with the plants generating a total of 3,534 gigawatt hours. Both of these operating performance measures were higher than the second quarter of 2009 when availability averaged 93 per cent and the plants generated 3,261 gigawatt hours.

Moving to slide five. The average Alberta spot power price in the third quarter of 2009 was $49.49 per megawatt hour, which is a 53 per cent increase from the second quarter of this year, but still down 38 per cent on a year-over-year basis. Obviously, weak natural gas prices continue to negatively impact Alberta power prices. We expect gas prices to remain low in the near term. However, as the economic recovery continues to gain traction, we expect a recovery in gas prices to result in a positive impact on power prices. The average captured power price of Alberta commercial position in the third quarter was approximately $54 per megawatt hour, compared to approximately $58 in the second quarter. The lower captured power price in the third quarter was due to higher hedging activities completed in the second quarter of 2009.

Turning to slide six. As mentioned earlier, we announced in October a partnership with TransAlta and Alstom Canada on the development of the largest carbon capture and storage project called the Pioneer Project. The future development of the carbon capture and storage facility will be at that Keephills 3 power plant outside of Edmonton, which is currently under construction. Using Alstom's chilled ammonia process, the project is designed to capture one million tonnes of greenhouse gas emissions annually. The federal and provincial governments have announced a combined $780 million in funding for the project. The carbon capture and storage facility is expected to be operational by 2015.

Also in October, we announced the Integrated Gasification Combined Cycle or IGCC project is not proceeding at this time. The IGCC technology has a promising future as a near-zero emission source of baseload power generation, but commercialization is not economic in the current power price environment.

Slide seven shows an update on our construction projects. The first project, the construction of the 495 megawatt Keephills 3 facility, which is a 50/50 partnership with TransAlta, is experiencing cost pressures. Based on current expectations, the total project cost will increase approximately 6 per cent to $1.9 billion. Accordingly, Capital Power's 50 per cent portion of the project cost is now estimated at approximately $955 million. The cost increases is related to additional labour required for the construction of the power island. The Keephills 3 facility was now expected to commence operations in the second quarter of 2011, a few months later than previous expectations. The project continues to meet internal rates of return requirements despite the higher project costs.

The next project is the 243 megawatt Clover Bar Energy Center. The total project cost is now expected to come in about 2 per cent lower than the previous estimate to approximately $280 million. In addition to the lower project cost, the completion of the last 100 megawatts in unit three is expected to come online earlier in the first quarter of 2010 versus the third quarter. The new high-efficiency units at Clover Bar will use 85 per cent less water and produce 70 per cent less nitrogen oxides compared to the older turbines, which will add 200 megawatts of peaking capacity to the site.

I will now turn the call over to Stuart to review the financial impacts of the quarter.

Mr. Stuart Lee, Chief Financial Officer

Thanks Brian. I'll start on slide eight with a review of the financial highlights for the third quarter.

Revenues were $525 million dollars in the third quarter, which was 2.2 per cent below the previous quarter; the increase in generation attributable to the Joffre plant and the northwestern US plants owned by EPCOR Power LP. Operating margin declined 4 per cent from Q2 to $169 million dollars. Excluding fair value changes, operating margin was up 7 per cent due to lower admin costs in the third quarter.

Reported net income was up 27 per cent to $14 million as compared with Q2. Excluding fair value changes, net income was $10 million compared to $7 million in the previous quarter.

Basic earnings per share was $0.64; with funds from operations, excluding the non-controlling interest in the LP, at $70 million. Cash provided by operating activities in the quarter was $53 million dollars. As Brian indicated, the results were in line with management's expectations.

Turning to slide nine, I'd like to take a moment to walk through an example of how to normalize earnings. Because of the two non-controlling interests, this is not an easy exercise. Starting with net income of $14 million in Q3 '09, you need to adjust for the fair value changes in

CPLP and EPLP and for the EPLP tax adjustment. Adjustment in CPLP needs to be captured at 27.8 per cent and tax effected. Adjustments in EPLP need to be captured at 8.5 per cent and tax effected. The net fair value change in CPC from its proportionate interest of CPLP is $3.16 million dollars. The net fair value change in CPC from its proportionate interest in EPLP is $0.78 million dollars. The proportionate share of EPLP tax adjustment for CPC is $0.85 million dollars. If these are the items you normalize for, income in the third quarter is approximately $9.21 million dollars or $0.42 per share.

Moving to slide 10. This slide shows a review of net income. Reported net income in the third quarter of 2009 was $14 million compared with $11 million on a pro forma basis in the prior quarter. The significant items impacting the quarter-over-quarter change include lower unrealized change in the fair value of EPCOR Power LP's derivative instruments in the third quarter of 2009, higher net financing expenses in the third quarter of $9 million, lower admin costs in Q3 as a result of transition costs booked in the second quarter for reorganization, and lower income taxes due to an out-of-period adjustment of $10 million reported in the third quarter to recognize future income tax assets relating to EPCOR Power LP's interest in Primary Energy Recycling Holdings.

Turning to slide 11. Given the pricing environment, let me give a brief overview of our hedging position with respect to Alberta Commercial Portfolio. Note that this portfolio consists of six facilities that generate approximately 40 to 50 per cent of operating margin before unrealized fair value changes and excluding the non-controlling interest in EPCOR Power LP.

For the fourth quarter of this year, approximately half of this portfolio is exposed to spot prices and the other half has been hedged forward at an average price in the low-$60 per megawatt hour range. For 2010, our exposure to spot prices is significantly lower. Approximately 90 per cent of the commercial portfolio has been sold forward at an average price in the mid-$60 per megawatt range. Looking to 2011, the portfolio's open position is expected to increase to approximately 60 per cent of the total commercial portfolio, partly as a result of Keephills 3 coming online.

The average contracted price for 2011 is in the low-$70 per megawatt hour range. We're well positioned to benefit from the expected increase in power prices at that time.

Assuming all other factors are held constant, the sensitivity to $1 per megawatt hour change in the Alberta power price on our operating margin is a change of approximately half a million dollars for the remainder of 2009, half a million dollars for 2010 and $4 million for 2011.

Moving to slide 12. I'll review our financial outlook for the balance of 2009 and for 2010. There are a couple of items to note for the remainder of 2009. First, we expect Alberta power prices to remain soft. Second, we have a planned outage at the Genesee 1 facility for maintenance that is estimated to result in a $10 to $12 million dollar maintenance expense. As well, the turnaround will lower availability incentive income by $5 or $6 million dollars; both estimates are on a pre-tax basis.

Noteworthy items that are expected to affect us in 2010 compared to 2009 include: the impact of our reduced interest in the Battle River PPA following the sale of our remaining 15 per cent interest in January 2010; the maintenance outages at the Genesee 2 and Genesee 3 facilities with an estimated total operating expense of $18 to $22 million compared to one outage in 2009; no expected transition costs in 2010 for reorganization; lower Alberta spot market price exposure for the Alberta commercial portfolio which, as I indicated, is approximately 90 per cent hedged in 2010; and higher operating margins for a full year of operations from the Unit 2 at Clover Bar following its commission in Q3 of 2009, and a contribution beginning in Q1 2010 for the commissioning of Unit 3 at Clover Bar.

Turning to slide 13. Our CAPEX program includes committed CAPEX of approximately $84 million for the remainder of 2009 and $273 million during 2010, relating primarily to construction of Keephills 3 and Clover Bar Unit 3. On an annual basis, maintenance CAPEX, excluding EPCOR Power LP, is expected to be in the range of $30 to $40 million dollars with an annual average of an additional $10 to $20 million for additional CAPEX spending.

With that, I'll turn the call to Brian to conclude.

Mr. Brian Vaasjo, President and CEO

Thanks Stuart. I'll wrap up with a review of the investment summary on slide 14.

Demand for power in North America is expected to continue to grow steadily as economic activity increases and the decommissioning of older facilities continues. Here in Alberta, the supply and demand balance is poised to rebound quicker than any other North American market, providing for very solid long-term fundamentals.

The economic downturn has been a challenge but Capital Power is well positioned to come through this part of the cycle. We are currently in a trough of a commodity cycle and natural gas prices are expected to improve. Approximately 50 per cent of our operating margin comes from long-term contracted plants and 90 per cent of that generation, that is not under long-term contract is sold forward in 2010, locking in the related operating margin for next year.

Capital Power has a strong balance sheet and a modest leverage with excellent liquidity to capitalize on opportunities. Our current construction project at Keephills 3 and the last 100 megawatt unit at Clover Bar will be coming online in 2010 and 2011, and will contribute meaningfully to cash flows in those years.

Overall, Capital Power is well positioned for growth, both through expansion and optimization of existing facilities, as well as through acquisitions.

I will now turn the call back to Randy.

Mr. Randy Mah, Senior Manager, Investor Relations

Okay. Thanks Brian. Operator, we're ready to start the question-and-answer session.

QUESTION AND ANSWER SESSION

Operator

Thank you. We'll now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star one at this time. If at any time you wish to cancel the question, please press the pound key. Please press star one at this time if you have a question. There will be a brief pause while participants register for questions. Thank you for your patience.

Our first question is from Matthew Akman from MacQuarie. Please go ahead.

Matthew Akman, Macquarie Research

Thank you very much. First, I just wanted to ask about the hedging policy. You have obviously a really good hedging in 2010 but a lot less so right now in Q4 and then out to 2011. What is the hedging policy you're thinking on that? And, are you kind of effectively making a bet that power prices rise in 2011? Or, is that just the policy, to be about 40 per cent hedged, sort of the year and half, two years out?

Mr. Brian Vaasjo, President and CEO

Good morning Matthew. Brian Vaasjo here. Effectively, what the planning of the 2010 position does for us is it allows us an opportunity to continue to monitor the market and lock in 2011 as we see appropriate opportunities as both the liquidity and power prices permit.

Matthew Akman, Macquarie Research

But, there's no policy in the company that says, in year x, we will be y per cent hedged. It's sort of based on your assumption about what might happen to power markets going forward. Is that correct?

Mr. Brian Vaasjo, President and CEO

Well, there are broad parameters driven by certainly our risk management policies that effectively drive to a greater and greater hedge position as you approximate calendar year or prompt year. So as we move forward to 2011, those policies will push us into a greater and greater hedged position. Generally speaking, as we go into a calendar year, we are certainly greater than 50 per cent hedged.

Matthew Akman, Macquarie Research

Okay. Thanks for that. My next question is around the Genesee 1 turnaround. Maybe this is a question Stuart for you, but when you talk about the revenue or operating margin at Genesee 1 and the $5 to $6 million impact, is that relative to normal or relative to what you did in Q3? Because, Q3 obviously had very high operating rates.

Mr. Stuart Lee, Chief Financial Officer

Q3 operating rates, I don't think we're out of line with what we normally expect. If you average G1 and G2, you're at, off the top of my head, I think probably around 97 per cent, which isn't out of line with what we've historically seen at those facilities.

Matthew Akman, Macquarie Research

Okay. So, 97 per cent is sort of the benchmark for the 5 to $6 million operating margin impact?

Mr. Stuart Lee, Chief Financial Officer

Yeah. 96 to 97 per cent.

Matthew Akman, Macquarie Research

Okay. Thanks for that. And, my last question is just around acquisitions, and I guess maybe it's back to Brian. I'm just wondering whether acquisitions are a high priority over the next sort of six to 12 months. Or, a lower priority, I guess just given general weakness in power prices.

Mr. Brian Vaasjo, President and CEO

Well, we've got acquisition and development teams in Alberta, BC, Ontario and out of our Chicago office. They continue to look at both acquisition and development opportunities. So, as the opportunities ebb and flow, they continue to put in efforts in both areas.

We certainly see with what's taking place in Ontario and BC, our wind projects are sort of moving back onto a front burner, but on the US side, again, we continue to look at acquisition and development opportunities, and certainly are—would be expecting to execute on something over the next year or so.

Matthew Akman, Macquarie Research

Okay. Thank you very much. Those are my questions.

Operator

Your next question is from Robert Kwan from RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Thank you. Just on the Keephills 3 project, can you talk a little bit about what you're seeing as the IRR right now? And, maybe how that compares to the IRR when you've got the Board approval for the transaction? And, maybe just the last part which is related to thoughts on pricing, both power and carbon in your current assumptions?

Mr. Brian Vaasjo, President and CEO

So Robert, at this point, it wouldn't really be appropriate for us to be commenting on the rate of return on a project, other than it certainly continues to be in our acceptable ranges. But, in respect of what's happened to us over time, you can appreciate the investment decision was made a number of years ago, and in fact, the rates of return are pretty similar today to those that we were expecting when the project was approved.

Since then, we've seen a significant increase in power prices which was reflected in the forward curves, and through the piece, we've also seen some significant shift in terms of both CO2 costs and wind costs would be applied, and certainly mitigation strategies. So, that's evolved as well. And again, at times we were looking at project returns that were fairly significantly higher than they are today, but where we are today, again, back to our investment decisions, the returns are generally in line with that period of time.

I don't believe at any time through looking at variations on time, price, cost, CO2 that we've seen the project go below what would be our expected levels of return for that kind of a project.

Robert Kwan, RBC Capital Markets

Brian, maybe I just—I wasn't understanding or completely getting the answer. So, it sounded like you were saying the project returns haven't changed materially over time, yet costs have gone up on the capital side, that carbon likely has gone up versus the initial assumption, and then power prices when you went into it, as you mentioned the forward curve was pretty steep at the time and if anything, really probably hasn't moved that much. So, I'm just trying—having trouble understanding how the return is very similar yet things have been moving in the wrong direction.

Mr. Brian Vaasjo, President and CEO

Sorry. Just to be clear. When we started the project, if you go back to sort of the 2002 general timeframe when the project was being put together, the long term view of power prices was a little bit more than it is today, but certainly, wasn't as lofty as power prices expectations were through 2007 and 2008. So, what I'm saying is that, I'll call it the broad range of returns that we were expecting back in 2002-2003 is generally in line with the returns that we're looking at today. The power prices have gone up slightly, CO_2 costs from that point in time are generally less than what we were expecting and timing certainly has changed. So overall, when you take all the pluses and minuses, the project returns are again generally in line with our expectations at the outset of the project.

And, although we're talking about a $50 million increase in cost, it still is a $955 million project from our half standpoint; so a relatively modest increase in capital costs.

Robert Kwan, RBC Capital Markets

Okay. Just my last question here. Just two small modeling points. Can you just talk about what you see the run rate for corporate would be as you get into 2010 and get away from all the transition costs? And then secondly, do you have a similar kind of run rate for what's going on in the other portfolio activities? It seems like they're a little lower than what we might have talked about earlier.

Mr. Stuart Lee, Chief Financial Officer

On admin costs, Robert, I think what you see in Q3 is consistent with what we would expect going forward.

Robert Kwan, RBC Capital Markets

Okay.

Mr. Stuart Lee, Chief Financial Officer

Maybe a small increase; there's some open positions from the transition that still has to be filled, but overall, not a significant change.

And, your second question was on…

Robert Kwan, RBC Capital Markets

The other portfolio activities. Just the margins there.

Mr. Stuart Lee, Chief Financial Officer

The other portfolio activities, I think what it reflects is the fact that there hasn't been a whole bunch of volatility in some of the markets that we're dealing with, particularly Eastern Canada and the Pacific Northwest. And, that volatility, the lower volatility gives rise to a few opportunities for those types of enhancement incomes.

Robert Kwan, RBC Capital Markets

Okay. So, if volatility returns, you're still thinking about that kind of 20 to 30 million a year range that I think we might have previously talked about on an annual basis?

Mr. Stuart Lee, Chief Financial Officer

That would be - probably at the lower end of that range.

Robert Kwan, RBC Capital Markets

Okay. Thanks Brian, thanks Stuart.

Operator

Once again, if you have a question, please press star one.

There are no further questions at this time.

Mr. Randy Mah, Senior Manager, Investor Relations

Okay. If there are no more questions, we'll conclude our conference call. Thank you for joining us today and we look forward to seeing you at our Investor Day event in Toronto on December 3rd. Thanks again for your interest in Capital Power.

Operator

The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
