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PRESENTATION

Operator

Thank you for standing by. Welcome to Capital Power Corporation's Fourth Quarter 2009 Analyst conference call. At this time, all participants are in a 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 any difficulty hearing the conference, please press star followed by zero for Operator assistance at any time. I'd like to remind everyone that this conference call is being recorded on Wednesday, March 10th, 2010, at 11:00 a.m. Mountain time. I'll now turn the call over to Mr. Randy Mah, Senior Manager, Investor Relations. Please go ahead.

Randy Mah, Senior Manager, Investor Relations

Good morning everyone. Thank you for joining us today for Capital Power's Fourth Quarter 2009 Investor conference call. Joining me on the call is Brian Vaasjo, President and CEO, and Stuart Lee, Chief Financial Officer. Brian will begin the presentation with a corporate update, followed by Stuart, who will review the fourth quarter financial results. After the opening remarks, we will 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 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 were 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 page 57 to 58 of the Company's management's discussion and analysis dated March 9th, 2010, for the quarter ended December 31st, 2009, which is filed on SEDAR and available at www.sedar.com.

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

Brian Vaasjo, President and Chief Executive Officer

Thanks Randy, and good afternoon. Capital Power's operating performance in the fourth quarter was in line with our expectations. We achieved a 72 percent [correct availability is "92%"] average plant availability despite an 18-day scheduled outage at the Genesee 1 facility. In December, we commenced operations on the final 100-megawatt natural gas fired turbine at the Clover Bar Energy Centre. The total project cost was $263 million, $21 million or 7 percent lower than the last public estimate of $284 million. The project was completed six months ahead of schedule and now, fully operational, it meets the demand for Alberta's peaking generation. The two 100-megawatt high efficiency units use 85 percent [should have said 85 percent "less" water] water and produce 70 percent less nitrogen oxide than the four turbines in the old Clover Bar plant that it replaced.

For the Keephills 3 construction project, there is no change in the project update that was provided in December of 2009. Construction continues as anticipated and the plant is expected to commence operation in the second quarter of 2011. Finally, in mid-January, we sold the remaining 15 percent interest in the Battle River PPA for cash proceed of $64 million, which resulted in a pre-tax gain of $28 million and associated taxes that are estimated to be $2 million.

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 generated. The average plant availability in the fourth quarter of 2009 was 92 percent compared to 95 percent in the third quarter of 2009. The 3 percent increase [should have read "decrease"] from the third quarter was primarily due to the 18-day scheduled maintenance outage at the Genesee 1 facility in the fourth quarter. Overall, the plants generated a total of 3,481 gigawatt hours in the quarter.

Turning to slide five, I'd like to discuss Alberta power prices for the latter half of 2009. The average Alberta spot price in the fourth quarter of 2009 was approximately $46, which was down 6.5 percent from the average spot price in the preceding quarter. Obviously, weak natural gas prices and reduced customer demand continued to negatively impact Alberta power prices in the fourth quarter. And we expect gas prices to remain low in the near term. This underlines the importance of our decision to sell forward substantially all of our 2010 merchant production at an average price above the forward curve, as Stuart will highlight shortly. Looking further out, 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 for our Alberta commercial position in the fourth quarter was approximately $57 per megawatt hour, $11 higher than the average spot price and $3 higher than the captured power price in the third quarter.

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

Stuart Lee, Chief Financial Officer

Thanks, Brian. I'll start on slide six with a review of the financial highlights for the fourth quarter. Revenues were $497 million in the fourth quarter, down 2.7 percent from Q3. Excluding unrealized fair value changes, revenues were up $26 million or 5.8 percent. The increase in revenues was due primarily to a $17 million increase in other portfolio activities, specifically an increase in natural gas sales volumes driven by increased demand in the winter months. Gross margin, excluding fair value changes, was up $182 million in the fourth quarter, down 3.7 percent from the $189 million in Q3, primarily due to the outage at Genesee 1. Operating margin in the fourth quarter was $154 million, down 8.9 percent from the third quarter, with the decline also attributable to the Genesee scheduled outage. Reported net income was down 50 percent to $7 million compared to the third quarter. Net income on a normalized basis was $4 million in the fourth quarter compared with $9 million in Q3. Earnings per share on a normalized basis was $0.18 in the fourth quarter compared to $0.42 in the third quarter. I will discuss the changes in normalized earnings per share in a moment. Funds from operations was $71 million compared with $93 million in Q3. Funds from operations, excluding non-controlling interest in Capital Power Income LP, was $49 million compared to $70 million in the prior quarter.

Moving to slide seven, I'll review normalized EPS in the fourth quarter of 2009. Normalized EPS has been adjusted for unusual items such as fair value changes, impairments, unusual tax adjustments and gains or losses on disposable assets. As mentioned, normalized EPS was $0.18 in the fourth quarter compared to $0.42 in Q3. Significant items impacting the sequential quarter-over-quarter change include the scheduled outage at Genesee 1, which resulted in a pre-tax impact of $10 million in maintenance expense; and $6 million in revenue; and higher indirect administration costs of $10 million that include an impairment loss of $4 million on our venture capital investment; and higher costs related to IT, employee stock option plans and transitional costs for the organization.

Turning to slide eight, given the pricing environment, let me give a brief overview of our hedging position with respect to our Alberta commercial portfolio. For 2010, our exposure to spot prices is minimal, with our merchant position substantially sold forward at an average price in the low $60 per megawatt range. Looking to 2011, the portfolio's open position is approximately 70 percent hedged at an average contract price in the low $60 per megawatt range. So we've effectively protected our position in the currently challenging environment while maintaining our leverage to better pricing in 2011. The Clover Bar units also significantly enhance our capability to physically manage our Alberta electricity exposures and provides opportunities to participate in a rising power market. To quantify the impact of Alberta power prices, the sensitivity of a $1 per megawatt hour change in Alberta power price on our operating margin, assuming all other factors are held constant, is a change of approximately $0.5 million for 2010 and $2.5 million for 2011.

Moving to slide nine, I will review our financial outlook for 2010 in comparison to 2009. 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 percent interest this past January; higher operating margins from a full year of operations from units 2 and 3 at Clover Bar following their commission in September and December of 2009; higher captured power prices for our Alberta commercial portfolio as a significant portion of the portfolio has been sold forward at an average price in the low $60 per megawatt range; maintenance outages at Genesee 2 and 3 facilities, with an estimated total operating expense of 18 to $22 million compared to one outage with a cost of $10 million in 2009; lower operating margins at Genesee 3 from the outage that is scheduled in 2010; no significant transition costs expected in 2010 for reorganization. As substantially all of our merchant position in 2010 has been sold forward, we expect a fairly stable cash flow profile for the year.

I'll now turn the call back to Brian.

Brian Vaasjo, President and Chief Executive Officer

Thanks, Stuart. Turning to slide 10, I'll quickly recap our 2010 corporate priorities, which we shared with you at our investor day last December. For our operational targets, despite two scheduled outages at the Genesee facility this year, we are targeting average plant availability of at least 94 percent. With the two scheduled outages and maintenance of our other plants in the fleet, we are targeting approximately $60 million of sustaining cap ex. Our construction and development objectives include our share of the remaining construction project costs for the Keephills 3 facility, which has a total targeted cost of $955 million and a completion date scheduled for the second quarter of 2011.

We have also committed at least $500 million to capital opportunities that meet or exceed our target rate of return. We will continue to take a very disciplined approach to growth and secure the developments or acquisitions that we execute on an accretive basis. Our financial expectations for the year in 2010, normalized earnings per share to be roughly in line with 2009 annualized EPS, excluding market-to-market gain and losses and the Battle River PPA gain. We also expect to repay approximately $245 million of existing debt due in 2010.

Finally, we will continue developing a robust investor relations program, with a commitment to enhanced disclosure to ensure the communication of our business and results is clear. We will continue to be available to investors and on a more formal basis quarterly. If we can execute on these priorities, then I feel we can achieve our goal of delivering a total shareholder return that is greater than the average of our peer group.

Finally, I'll wrap up with a review of our investment summary on page 11. We strongly believe the power generation business in North America is a very good business, with Alberta probably being the best power market in North America with positive long-term fundamentals. Alberta power prices are expected to be amongst the first to recover based on supply and demand balance. With our significant investment in Alberta, Capital Power is best positioned to benefit from these developments. We have minimal exposure to depressed Alberta power prices in 2010, as substantially all of our uncontracted production is hedged. When you look forward as the economy continues to recover, our merchant position in 2011 and 2012 provides a tremendous upside opportunity. We have a strong balance sheet with modest leverage and excellent liquidity to capitalize on growth opportunities. In addition, our new facility, Clover Bar and Keephills 3, with its completion in 2011, will both materially increase our cash flow generation in 2011 and 2012. In the meantime, investors are rewarded with an attractive yield.

I'll now turn the call back over to Randy.

Randy Mah, Senior Manager, Investor Relations

Okay, thanks, Brian. Dave, we're ready to start the question and answer session.

QUESTION AND ANSWER SESSION

Operator

Thank you, Mr. Mah. We will now be taking 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 on your telephone keypad, and if at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Bob Hastings with Canaccord. Please go ahead.

Bob Hastings, Canaccord

Hi, thank you very much. The earnings outlook that you gave for 2010 was to be very similar to what we saw as an annualized number in 2009. Can you just… To be clear, what number do you see as an annualized 2009 number per share and and on a fully diluted basis?

Stuart Lee, Chief Financial Officer

So, Bob, basically if you were to annualize the normalized, we were at $0.60 on an undiluted basis for the back half of the year. So if you, I think if you just double that, that's what we're talking about on an annualized basis. On a fully diluted basis, I believe the EPS is around $0.50 for the back half of 2009.

Bob Hastings, Canaccord

So you're looking at a fully diluted earnings per share number of 2009 of about $1?

Stuart Lee, Chief Financial Officer

You know, again, we've given rough guidance around that, yes.

Bob Hastings, Canaccord

Okay. Thank you. And your… the new gas plants that you've got up and running at Clover Bar, how were they performing in the quarter? Are you actually operating them very often? Or are you… Are they adding actual earnings or just cash flow contribution at this point?

Stuart Lee, Chief Financial Officer

So for the fourth quarter of 2009, we didn't see those units operate a whole bunch given the low power prices in the market and low volatility. We are seeing a little bit higher operations in the first quarter to date of 2010. But again, I think our outlook for 2010 on those facilities is, given our expectations on low prices and volatility, that we would expect to see those operated probably in the 10 percent range of their capacity for the balance of the year.

Bob Hastings, Canaccord

Okay, thank you. And just one last question on your hedges. You mentioned that you hedged in for 2011 now in the low 60s. Is $60 the right number to use or is there a better number there?

Stuart Lee, Chief Financial Officer

It's… again, it's between 60 and 65.

Bob Hastings, Canaccord

Okay. And what about 2012? You've given that out before and I know it's still a ways away. Have you done any more hedging for 2012?

Stuart Lee, Chief Financial Officer

I think we've marginally changed our position for 2012 but it's not a significant change at this point.

Bob Hastings, Canaccord

Okay. And the last question and I'll let somebody else get in, was the… in terms of the strategy on hedging going forward, we've seen a couple of different companies, one suggest that lock-in pricing and not worry about what the rate is, just to get operational… operating characteristics known, and another one suggesting that prices are too low and the forward prices are too close to the spot; there's really no point and what's your positioning on that and so do you have a general strategy going forward?

Brian Vaasjo, President and Chief Executive Officer

Bob, Brian here. Just to sort of put my comments into context, I think it's helpful to look at the evolution of our position over certainly 2009 and '10 and '11. Because what's happened, when you look at our position, if you take 2009, for example – and I'll use very broad numbers here and… without impacts of outages and so on – but if you say our basic position is 650 megawatts, as you move into 2010, one of the significant things that have happened is that we've added Clover Bar. So firstly, we lose 100 megawatts because of the sale of Battle River so our base load – and I'll call it base load – is 550 megawatts. We have on top of that 250 megawatts of the Clover Bar unit, which to us provides us the opportunity that if we do run into periods of high volatility or we do see in to escalating power prices for periods of time, we are able to capitalize on those. So we continue, even though we have a flat position, and we say if we're substantially hedged, that does not include the Clover Bar unit as being contracted. It remains fully uncontracted and available to participate in those a price spike or sustained period of higher power prices.

As you go forward to 2011, we add another 250 megawatts so that moves us up to sort of a base load position of about 800 megawatts and although, we have significant hedging taking place on 2011, I'll call it our open position is still very significant. And on top of that, we continue to have the upside associated with the Clover Bar units. So basically, if you look at 2010 versus 2011 or even back to 2009, we have a position now, with the change in our units and the gross megawatts that we have a significant amount of contracted output that we see as pretty reasonable prices that are on a little bit on the downside, and we're effectively hedging a significant amount of cash flow that way; yet, we continue to have a very positive exposure to power prices in 2011 and thereafter. So with that changing position, our view continues to be, as we go forward, to look at the market, continue to consider what levels are appropriate to hedge against the downside but certainly wanting to maintain that opportunity to participate on the upside when it arises.

Bob Hastings, Canaccord

Okay, thank you.

Brian Vaasjo, President and Chief Executive Officer

So we haven't philosophically changed our position. I would, though, add that, as you may recall, as we discussed in the investor day, we have changed our risk management policy more to be reflective of the smaller size of Capital Power versus what was EPCOR Utilities and also with some mechanical changes you will see as we move into a prompt year, us hedging up more and more to make sure that we have hedged against the downside but continue to have significant opportunity to participate on the upside.

Bob Hastings, Canaccord

Okay. So the increased hedging you've done at these probably $45 to $50 pricing is shorter term in nature maybe into 2011 but not beyond '12?

Brian Vaasjo, President and Chief Executive Officer

That is correct.

Bob Hastings, Canaccord

Okay. Thank you very much, Brian.

Operator

Thank you. The next question is from Matthew Akman with Macquarie Capital Markets. Please go ahead.

Matthew Akman, Macquarie Capital Markets

Thank you. I just, first, wanted to make sure that I understand the quarter and the adjustments you've made, Stuart. I think you've adjusted for the venture capital investment write-down when you present $0.18 as your normalized number, but I just wanted to confirm that first.

Stuart Lee, Chief Financial Officer

That's correct.

Matthew Akman, Macquarie Capital Markets

Okay. Thank you for that. I have a question on the impact of plant outages and sort of what you guys see as normal. You talked, I think, going into 2010 about a $20 million impact resulting from the two outages as opposed to around $10 million in Q4 '09 from the one outage. Is that right?

Stuart Lee, Chief Financial Officer

Correct. And then that's just on the maintenance side.

Matthew Akman, Macquarie Capital Markets

What is the revenue impact year-over-year please?

Stuart Lee, Chief Financial Officer

So, if you look at something like G2 versus G1, we'd see likely a consistent view on what that impact would be and for G1, this past quarter, it was around $6 million.

Matthew Akman, Macquarie Capital Markets

Okay.

Stuart Lee, Chief Financial Officer

And then for G3, obviously, merchant facility, you know, it'd be subject to your view of power prices.

Matthew Akman, Macquarie Capital Markets

Okay. Okay, thanks for that. Did Battle River contribute significantly in the fourth quarter?

Stuart Lee, Chief Financial Officer

It would be consistent with prior quarters. There wasn't any significant changes in the fourth quarter versus others. It's 100 megawatts of base load facility and I think our captured price was around $57 and costs associated with those type of facilities is kind of in the low $40 range.

Matthew Akman, Macquarie Capital Markets

Okay.

Stuart Lee, Chief Financial Officer

So that would be kind of the net margin we would have received on it.

Matthew Akman, Macquarie Capital Markets

Okay. Thanks very much. My last question is maybe more big picture; I'm not sure if this is for Brian but what is behind your great optimism on the Alberta power market bouncing back so much? Because, I mean… is it that you disagree with the forward gas curve or that you think that people have underestimated the demand growth? Or what is behind that view that is, I guess, diverging from what the market is telling us?

Brian Vaasjo, President and Chief Executive Officer

I wouldn't necessarily say that our views are divergent from what is the general consensus. I think it's a pretty common view that the Alberta economy will be coming back probably more quickly and stronger than probably any of the other markets in North America. The current position in the Alberta market is it has, and depending on how you measure it, one of the lowest reserve margins, indication of requiring new capacity some time over the next handful of years and we're actually we're seeing people talking about new projects coming into Alberta over the next number of months, or number of years, new power projects as an indication of where people's expectations are on power prices.

In terms of a natural gas view, we certainly have a view and I think most people who are forecasting natural gas prices generally believe that the forward curves are less than where the natural gas prices will ultimately land. I think there's been studies done that have indicated that the view on natural gas prices in particular is certainly, I'll call it overly influenced by the current natural gas price. And, much of that is weather related and dependent on current surpluses and storage numbers as opposed to necessarily longer term fundamentals. We certainly have a different view than the forward curve but I think the general consensus has a different view than the forward curve.

Matthew Akman, Macquarie Capital Markets

Okay. Thank you for that clarification and that's all my questions.

Operator

Thank you. The next question is from Robert Kwan with RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Thank you. Just on the Alberta commercial segment, the captured price was up about $3 a megawatt hour and that's partially offset by the $3 million retroactive PPA adjustment you booked during the quarter. But operating income was down and I would have thought that the price changed would have overwhelmed the PPA adjustment so I'm just wondering if there was something else going on in the quarter for that segment?

Stuart Lee, Chief Financial Officer

The PPA adjustment was probably the biggest item, Robert, and I guess the only other thing of a smaller nature would have been some of the additional CO2 costs associated with the Sundance PPA, which would have been a little bit over $1 million.

Robert Kwan, RBC Capital Markets

Okay. And there was really nothing else. Like, would you have assumed that the $3 increase in the captured price would have been more than just the retroactive PPA adjustment?

Stuart Lee, Chief Financial Officer

Not sure I follow your question.

Robert Kwan, RBC Capital Markets

So your captured price was up $3 a megawatt hour and when you apply that across the portfolio, not just from your own generation but what you got from Sundance and Battle River, I would have thought the positive impact of that versus Q3 would have been more than $3 million, yet operating income for the segment was down a couple of million.

Stuart Lee, Chief Financial Officer

It would equate to slightly more than that but like I said, we had also the additional cost on CO2 and those were the primary drivers. There may be $1 million, $1 million plus delta there but I'd have to look if there's anything else that would be accounting for that.

Robert Kwan, RBC Capital Markets

Okay. And then just on the hedging, you know, you had, you know, a pretty good amount of production hedged for 2011 at some good prices and you've talked about having a view that power prices should be increasing and really start to pick up in '11, yet you've hedged at prices very similar to where the spot price is right now. How should we be interpreting kind of what you've done there?

Brian Vaasjo, President and Chief Executive Officer

Well I think that goes back to my earlier comments about we've got a significantly increasing position as we go into 2011 and certainly the addition of Clover Bar into 2010 has added another dimension to our portfolio. So we are much more inclined to hedge more of our base load as a percentage because we have a larger volume of base load to hedge, and on the upside, we continue to have – which is new in 2010 – the Clover Bar units to capture that upside.

Robert Kwan, RBC Capital Markets

Okay. And I guess… then maybe what percentage of base load should we be expecting you to hedge as you head into kind of the prompt year, so say at the end of this year?

Brian Vaasjo, President and Chief Executive Officer

In all likelihood, and again, some of it depends on some of the volatility and your more specific views of pricing as you go into a prompt year, but certainly you could be 90 percent hedged going into a prompt year or potentially even higher. On the other hand, and just to be clear, when we, for example, say that we're 100 percent hedged, that's on balance for the year so in terms of broad price movement, you're insulated against that. Within that, though, there certainly are positions that are taken, either on peak or off peak, or positions that are taken by season or by month where we could be modestly long or we could be modestly short. And again, one of the benefits of the Clover Bar unit is it now allows us to feel much more comfortable about taking a short position.

Robert Kwan, RBC Capital Markets

Okay, great. Thank you very much.

Operator

Thank you. The next question is from Michael Lapides with Goldman Sachs. Please go ahead.

Michael Lapides, Goldman Sachs

Hi, guys. Two questions. One, can you give just a refresher on where your coal procurement pricing and quantities are, just in terms of how much of your coal you have hedged, both for the commercial and the contracted plants for the next few years, how that compares to what market prices of coal and some all-in delivered coal are? That's a question. And then the follow-up, can you talk about… you mentioned a little bit about new asset development being looked at by a number of folks. Can you talk about over the next two or three years which new assets you expect to come online in Alberta?

Stuart Lee, Chief Financial Officer

And maybe – Michael, it's Stuart – I'll jump in on the first question and let Brian answer the second. But on our coal, both on our facilities as well as the PPAs that we have with TransAlta, those are mine mouth facilities and so we don't have really any exposure as far as coal costs go, because it's really a cost of service on our particular facilities. And then on Sundance PPA, it's a locked-in pricing under the PPA. So, we really have no exposure necessarily on our portfolio to movements in coal prices.

Michael Lapides, Goldman Sachs

Okay. On the new asset development question?

Brian Vaasjo, President and Chief Executive Officer

So, on the new asset development question, there is nothing definitive at this point in time, Michael. There's a number… there's a significant number of wind developments in southern Alberta that are awaiting transmission capability to be going forward. Likewise, the Alberta government announced support for a gasification project that may well lead to some power generation in the Province. There's a couple of cogen facilities that are being talked about in the market, so there is nothing… I mean there is a list of potential developments taking place in the Province. There's nothing definitive in the next two to three years but it was more an indication on my part that there is a broad expectation by people looking at power in the Province that the power prices are going to be moving to where they can support opportunities.

Michael Lapides, Goldman Sachs

And it looks like the AESO is making a broad push to build a significant amount of transmission, or to have a significant amount of transmission built, partially to just alleviate congestion across the different parts of Alberta but also partially to interconnect new renewable. Do you view that more as a promise or an upside for you? Or do you view it as more of a threat with the potential import of new renewable capacity?

Brian Vaasjo, President and Chief Executive Officer

So just to be clear, you're referring to connection to renewable capacity, i.e. wind projects in southern Alberta?

Michael Lapides, Goldman Sachs

Yeah, wind projects in southern Alberta, but I mean the AESO's looking at multiple different transmission projects; some of it's relates to that; some of it's related up to the oil sands, etc. I'm just curious how you view transmission in general versus your portfolio.

Brian Vaasjo, President and Chief Executive Officer

So as a broad principle from a transmission standpoint, we're absolutely supportive of Alberta policy, which is you build generation where it makes economic sense and on effectively a postage stamp basis, the system will build to you. And so from that standpoint, and again, we continue to be very supportive of that. In the Alberta market, it is an energy-only market and it is a merchant market so as developers bring projects forward, particularly wind in southern Alberta, people have to have market outlooks that support that pricing for those projects to be going ahead. So we see the availability of transmission and the building of transmission to be a very positive aspect of the Alberta market and continue to support it.

Michael Lapides, Goldman Sachs

Okay. Thank you.

Operator

Thank you. Once again, please press star zero… or star one if you have any questions or comments. The next question is from Linda Ezergailis from TD Newcrest. Please go ahead.

Linda Ezergailis, TD Newcrest

Thank you. With respect to your indirect admin expenses, they seem to be tracking a little bit higher in Q4 versus Q3 and I'm wondering how much of that was related to one-time items such as IT and your venture capital write-down? Or, is there a new discreet run rate or should we still work with the $27 million a quarter that you had guided to previously?

Stuart Lee, Chief Financial Officer

Thanks, Linda. So if you look at for the six months ended December 31st, the total I think indirect spend was around $64 million and if you back out the $4 million for the venture capital write-off and then take out some of the transition cost, you'll arrive at a number in around the $56 million range. For the back half, which I think continues to be a good run rate going forward and then obviously escalated by inflation for 2010.

Linda Ezergailis, TD Newcrest

Okay. And then with respect to your environmental costs for G1 and G2, I guess that's going to be increasing around $6 million. Is there a lag in recovery of that in timing?

Stuart Lee, Chief Financial Officer

That'll be a pass through to the balancing pool so there's no lag in recovery on that.

Linda Ezergailis, TD Newcrest

There's no lag in recovery, okay. And maybe just another clean-up question; how much of interest did you capitalize in the quarter?

Stuart Lee, Chief Financial Officer

I'd have to get back to you on that. I don't have it in front of me.

Linda Ezergailis, TD Newcrest

Okay, that would be helpful. I think the rest of the questions I can take offline.

Stuart Lee, Chief Financial Officer

I know that we will have disclosed in the financial statements themselves what was capitalized for the six months, so I'll just check if that's significantly different on a quarter-over-quarter basis.

Linda Ezergailis, TD Newcrest

Okay.

Stuart Lee, Chief Financial Officer

What we have done and disclosed what the capitalized amount would be for the six months.

Linda Ezergailis, TD Newcrest

Okay. And maybe just while we're on the topic of details, can you just confirm that your G2 timing is still the spring and your G3 is still the fall?

Stuart Lee, Chief Financial Officer

Yes.

Linda Ezergailis, TD Newcrest

Okay. And the $20 million in operating expense expectation would be not including incentive penalties?

Stuart Lee, Chief Financial Officer

Correct. So we would expect incentive penalties on G2 to be consistent with what we saw in G1, in around $6 million.

Linda Ezergailis, TD Newcrest

Okay.

Stuart Lee, Chief Financial Officer

And obviously the lost revenue then associated with G3 being down in the fall.

Linda Ezergailis, TD Newcrest

Okay. And then the duration of the G2 and the G3 turnaround?

Stuart Lee, Chief Financial Officer

I think the expectation is G2 would likely be in the 20-day range. Typically those turnarounds in G1 and G2 are 18 to 21 days and I think this one falls in that range. And then G3 is closer to 30 days.

Linda Ezergailis, TD Newcrest

Closer to 30 days?

Stuart Lee, Chief Financial Officer

Yeah.

Linda Ezergailis, TD Newcrest

Okay, great. Thank you.

Operator

Thank you. There are no further questions registered at this time. I'd now like to turn the meeting back over to Mr. Mah.

Randy Mah, Senior Manager, Investor Relations

Okay, if there are no more further questions, we'll wrap up our call. Thanks for your interest in Capital Power Corporation and we'll look forward to working with you in the following quarters. Thank you.

Operator

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