CAPITAL POWER CORPORATION
Second Quarter, 2010 Results and the Island Generation Acquisition Conference Call
August 3, 2010

OPERATOR: Welcome to Capital Power Corporation's Conference Call to discuss the Second Quarter 2010 Results and the Island Generation Acquisition. 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. I would like to remind everyone that this conference call is being recorded on Tuesday, August 3, 2010 at 11:00 a.m. Mountain Standard Time.

I will now turn the call over to Randy Mah, Senior Manager Investor Relations. Please go ahead.

RANDY MAH: Good morning. And thank you for joining us today. This morning Capital Power released its second quarter 2010 results and announced its first acquisition. The press releases on these announcements are posted on our website at www.capitalpower.com. This conference call is also being webcast from our website, where you can access the presentation slides for this call.

Joining me this morning is Brian Vaasjo, President and CEO, Stuart Lee, Chief Financial Officer, and Jim Oosterbaan, Senior Vice President, Commercial Services. We will begin the presentation with a discussion of the second quarter results by Brian and Stuart, followed by an overview of the acquisition of the Island Generation facility from Jim. 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 2. Certain information in this presentation and in responses to questions during this conference call, contain 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.

Please refer to pages 23 to 25 of this presentation which contain 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 conclusions or making a forecast or a projection, as reflected in the forward-looking information.

I will now turn the call over to Brian for his remarks starting on Slide 3.

BRIAN VAASJO: Thanks Randy. Good morning. I have a number of items to touch on this quarter, but I'll start with Capital Power's financial results. The second quarter 2010 performance was below management's expectations. Stuart will cover the financial results in more details in a few moments.

One of the drivers for the weak performance in the second quarter was commodity optimization strategies. These strategies led to a strong earnings contribution in the first quarter of 2010, but underperformed in the second quarter.

As a company, we actively manage our Alberta commercial portfolio position through various time periods including hourly, weekdays versus weekends, and peak versus off-peak periods. This includes taking short or long positions during certain periods. The hedging positions taken are primarily on the base load length from our coal facilities and generation output from the Sundance PPA. Our two natural gas facilities, Joffre and the Clover Bar Energy Centre, provide value in portfolio position management. The uncontracted output from these 2 plants are not hedged, but are used to manage the portfolio.

With the Clover Bar Units 2 and 3 being offline for extended periods in the second quarter, our ability to capture the upside on the power price spikes that occurred in the quarter, was restricted. However, the significantly higher penalties for the Genesee 2 planned maintenance, as a result of significantly higher power prices, was the single largest factor for earnings not meeting expectations.

However, because of the strong results in the first quarter, the performance in the first half of the year, is tracking close to plan. Our outlook for the year is unchanged from our earlier guidance.

For our wind development projects we recently announced that Vestas had been selected for the supply and maintenance of wind turbines for the Port Dover and Nanticoke project in Ontario, the Quality Wind Project in British Columbia, and for the proposed Kingsbridge 2 project in Ontario. Last month, the Quality Wind Project received an environmental assessment certificate from the Government of British Columbia. This major regulatory milestone allows us to continue moving forward with the development of the project scheduled for commercial operation by the end of 2012.

As Randy mentioned, I'm pleased to announce that we have executed on Capital Power's first acquisition that was announced earlier this morning. We have been very active, but disciplined and patient for the last 13 months. Jim will discuss the acquisition of Island CoGen in more details shortly.

Turning to Slide 4, this slide summarizes the proposed greenhouse gas emissions regulations for coal fired plants that were announced by the federal government in June. The proposed plan will apply a new GHG emissions performance standard to new fired electricity generation units. The new performance standards are likely to be similar to natural gas combined cycle units.

Existing facilities such as the Genesee units and the Keephills 3 unit, have commercial operating dates prior to January 1, 2012 and are expected to be exempt from any federal CO_2 penalties or GHG trading. No additional charges for GHG emissions are expected, but it is not clear at this time whether the proposed federal GHG emission regulations will replace the Alberta specified gas emitters regulations. Overall, the proposed regulations provide some certainty and are expected to be favourable to Capital Power's Genesee units and Keephills 3 facility.

Moving to Slide 5, this slide highlights the operating performance for our facilities. Overall, weighted average plant availability in the second quarter was 86%, impacted by the scheduled outage at Genesee 2, and the mechanical failure in the main turbine section of unit 2 of Clover Bar. Genesee 2 was offline for 21 days for a scheduled outage, which was the main contributor for its 75% plant availability in the quarter.

The Clover Bar Energy Centre unit 2 was offline for all of the second quarter and is expected to be back online next month. Unit 3 was also offline for 15 days due to an equipment issue. These 2 outages result in a 52% plant availability there.

The Joffre plant reported higher plant availability of 84% and had higher dispatch compared to the first quarter of this year and in the second quarter of 2009, as a result of higher power prices.

Turning to Slide 6, construction at the Keephills 3 facility, our joint venture with TransAlta, remains on target on the revised project cost forecast, and on schedule to commence operations in the second quarter of 2011. The hydro tests on the feed water and reheater systems, and the boiler, was completed successfully in April, achieving a major project milestone. Keephills 3 is in the commissioning phase with commissioning activities taking place on the boiler, turbine and electrical systems.

I will now turn it over to Stuart.

STUART LEE: Thanks Brian. I will begin my remarks with a financial summary of second quarter results starting on Slide 7. All 3 units of Genesee were affected by a direction to curtail generation to accommodate transmission system upgrades. The curtailment contributed to: spikes in Alberta power prices, foregone availability incentive revenues at Genesee 1 and 2, and trading activity undertaken to manage our Alberta portfolio position. The curtailments reduced second quarter operating margins by approximately $2 million from our expectations.

As a result of higher power prices during the Genesee 2 scheduled outage, we incurred $12 million in availability penalties, which was $6 million higher than expected. The maintenance cost for the Genesee 2 outage was $13 million, slightly higher than originally forecast due to additional rotor repairs.

As Brian discussed earlier, we had lower operating margin contributions from portfolio optimization and other portfolio activities. As well, depreciation expense was higher in the second quarter due to $2.4 million recorded for early retirement of an IT asset.

Turning to Slide 8, this slide shows the sequential financial performance for the company for the last four quarters, including a trailing 12 month total. As you can see in the slide, the second quarter 2010 performance was the weakest of the four, with normalized EPS of 5 cents per share, however the 60 cents per share for the first half of 2010, still equalled the level for the last half of 2009.

The company continues to generate healthy funds from operations, on a deconsolidated basis of $240 million in the past 12 months. This is substantially higher than the $150 million required for annual dividends and average maintenance capex.

So, we continue to generate significant discretionary cash flow, net of dividends and maintenance capex, despite a soft Alberta power market and in advance of future substantial cash flows from a strong pipeline of projects under construction.

Turning to Slide 9, I’d like to review Alberta power prices over the past five quarters. Alberta spot power prices were volatile in the second quarter of 2010 and averaged $81 per megawatt hour, up 99% from the first quarter of this year, and up 151% on a year-over-year basis.

As you can see from the chart the average spot price in second quarter of 2010 was the highest in the past five quarters. As mentioned, the increase was due to supply shortages from the generation curtailments at all 3 units at Genesee to accommodate transmission system upgrades, the Genesee 2 scheduled outage, and other plant de-rates on the Alberta electric system.

The company's captured power price of $66 per megawatt hour in the second quarter of 2010 was below the $81 average spot price due to the company already being substantially hedged forward for the remainder of 2010, prior to the second quarter.

Moving to Slide 10, I'll cover the recent financial updates. As mentioned on the Q1 call, the company filed base shelf prospectuses for both equity and debt in April. Under these filings, the company can issue up to $1 billion in both equity and debt. The filing of these base shelf prospectuses provides us with financial flexibility and positions the company to fund its growth plans in line with our commitment to maintain our investment grade credit ratings.

In June we refinanced $245 million in debt repayments to EPCOR, through a drawdown on credit facilities. At the end of the second quarter, the company's debt-to-total cap on a non-consolidated basis, excluding CPILP was 34%, providing us with capacity to finance part of our development pipeline with debt and still stay comfortably within our 40 to 50% target.

Also in the second quarter the company entered into two $100 million forward bond sale transactions to hedge a portion of the exposure to interest rate risk on potential future borrowings. These forward contracts expire in March 2011.

Turning to Slide 11, I'll conclude with a review of our financial outlook for the remainder of 2010. Although second quarter results were below expectations, the 2010 outlook is unchanged from the outlook disclosed at 2009 year end, due to our strong first quarter results.

Genesee 3 has an outage scheduled in the fourth quarter with an expected operating expense of approximately $7 million, which will result in a lower operating margin for the period. For the balance of 2010, we aren't aware of any further curtailment requirements caused by transmission upgrades in the province.

Total plant availability is estimated at 90% for the year, primarily due to issues with units at the Clover Bar Energy Centre. Unit 2 is expected to be back online in September and once it's online, the company will pursue a business interruption insurance claim.

Capex, excluding capex from Capital Power Income L.P. and acquisitions is expected to be approximately $172 million for the last half of the year and approximately $361 million for all of 2010. This includes the addition of $60 million for wind development projects, and a $10 million reduction for Keephills 3 that will be deferred to 2011.

I will now turn the call back to Brian.

BRIAN VAASJO: Thanks Stuart, turning to Slide 12, I will provide a status update on our 2010 corporate priorities. For our operational targets, the plant availability of 94% or higher is not expected to be reached this year. With the issues with the Clover Bar Units, we now expect average plant availability to be approximately 90% for 2010. The sustaining capex target of $60 million continues to be on track.

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 for us of $955 million and a completion date scheduled for the second quarter of 2011. As mentioned earlier, this objective also continues to be on track.

With the announcement of the contract awards for Quality Wind and Port Dover and Nanticoke wind projects earlier this year, and now with the acquisition of the Island CoGen facility, our commitment of at least $500 million towards capital opportunities that meet or exceed our target rate of return has been exceeded.

Based on the financial performance in the first half of this year, we are comfortable with our financial expectations for 2010, where normalized earnings per share are expected to be approximately in line with the annualized 2009 levels. As Stuart mentioned, we refinanced the $245 million of existing debt which matured in June. If we continue executing on these priorities, I believe we will be well-positioned to achieve our goal of delivering a total shareholder return that is greater than the average of our peer group.

I would like to conclude my comments by outlining the progress we have made to date on the execution of our growth strategy as illustrated on Slide 13. As shown on the graph, since Capital Power's IPO launch a year ago, we have added or placed into development, 940 megawatts [should have said 970 MW]. This includes: 200 megawatts of generation at Clover Bar; 247 megawatts at the Port Dover Nanticoke and Quality Wind Projects; 248 megawatts for Keephills 3 and 275 megawatts for the Island Generation facility. We continue to make progress towards our long term goal of 10,000 megawatts by 2020.

I will now turn the call over to Jim, to discuss the Island Generation transaction.

JIM OOSTERBAAN: Thanks Brian. I will begin my comments starting on Slide 15, with an overview of the transaction. Capital Power LP, the legal entity that directly and indirectly holds Capital Power's assets, signed a purchase and sale agreement with Kelson Canada Inc. to acquire the Island Cogeneration facility for $207 million, plus closing costs and working capital adjustments.

Island Generation is fully contracted under a tolling arrangement with BC Hydro until 2022. The acquisition meets the minimum 9% hurdle rate for contracted assets on an unlevered after-tax basis. The transaction is expected to be modestly and immediately accretive to earnings and more significantly accretive to cash flow, based on EPA terms and expectations on accounting treatment. The transaction is expected to close in the fourth quarter of this year, subject to regulatory and other approvals. Subject to market conditions, the acquisition is expected to be permanently financed with a combination of debt and equity.

Turning to Slide 16, this slide provides a description of the Island Generation facility. The facility is a 275 megawatt gas-fired combined cycle power plant, located on Vancouver Island. It commenced commercial operations in April 2002. The eight year old plant is consistent with Capital Power's fleet of young assets. The facility operates an Alstom GT 24B gas turbine and an Alstom steam turbine with a total capacity of 275 megawatts. Island Generation has an operations and maintenance agreement with NAES

Canada Ltd. which is a wholly owned subsidiary of NAES Corporation.

Moving to Slide 17, I will provide an overview of the EPA and the power market. Island Generation has a strong investment grade counterparty with BC Hydro, who is rated AAA by Standard and Poors. The recently executed electricity purchase arrangement with BC Hydro has a 12-year term, expiring in April 2022.

As mentioned, the EPA is set up as a tolling arrangement, where BC Hydro delivers all fuel required to operate the facility and is obligated to pay for all power generated or deemed to have been made available. Island Generation operates in the attractive power market of Vancouver Island and is the single largest plant operating on the island. The current generation capacity is approximately 750 megawatts on the island. BC Hydro's demand forecast projects approximately 2,400 megawatts of peak demand for Vancouver Island with load growth expected to outpace new generation additions. The Island Generation facility is well positioned as an important reliable resource at peak demand periods and during transmission outages.

I will conclude my comments on Slide 18 with a quick summary of the highlights of the transaction. The transaction meets the minimum 9% hurdle rate for contracted assets. It is modestly and immediately accretive to earnings and more significantly accretive to cash flow. The 12 year long term contract will extend the company's current average PPA term remaining of approximately 10 years. The eight year old facility is relatively new with very good operating performance. It had a 90% average availability in the past 3 years. Finally, the Island Generation facility is the single largest plant operating in the attractive power market on Vancouver Island.

I will now turn the call back to Randy.

RANDY MAH: Okay. Thanks Jim. Carl, we're ready to start the question answer session.

QUESTIONS AND ANSWERS:

OPERATOR: Yes Randy. Ladies and gentlemen. If you'd like to ask a question at this time, please dial "01" on your phone's keypad. If ever you wish to withdraw the question, just hit the "#" sign. Once again, if you'd like to ask a question, please dial "01".

The first question is from Linda Ezergailis, from TD Newcrest. Please go ahead.

LINDA EZERGAILIS: I'm wondering if you've spoken with debt rating agencies about the acquisition that you've announced and what sort of credit metrics you'll need to maintain your BBB rating.

STUART LEE: Linda, this is Stuart. We have had brief conversations with both rating agencies. At this point in time, just giving them a high overview of the project. Given the size of the acquisition relative to the size of the organization, I wouldn't expect there to be a meaningful impact one way or the other. Again, at this point in time, we've just had high level discussions with them and haven't gotten into a bunch of detail.

LINDA EZERGAILIS: Generally, can you just remind me what sort of credit metrics they look at and what ranges they'd like to see?

STUART LEE: I think the biggest impact is generally around qualitative features. So, the fact that this is a contracted asset, certainly is beneficial. But, if you get into specific credit metrics, like debt-to-cap and things like funds from operations versus overall debt, the type of credit metrics that we've continued to discuss with them is a debt-to-cap that would be in the 40 to 50% range. Currently, we're about 34% so we have some head room. In addition to that, we're looking at FFO to debt in the 20% range.

LINDA EZERGAILIS: And where are you right now?

STUART LEE: We'd be slightly above that right now.

LINDA EZERGAILIS: Okay. Thank you. The operating contract you have with Island Generation, is that for the duration of the agreement with BC Hydro?

JIM OOSTERBAAN: The operating contract with NAES will expire at the end of this year. We would expect that we would assume operation of that plant with our own forces following the expiration of that contract.

LINDA EZERGAILIS: So Capital Power will take over operations?

JIM OOSTERBAAN: Yes.

LINDA EZERGAILIS: What are the regulatory approvals? What would be considered the key one?

JIM OOSTERBAAN: The only approval we require is really a *Competition Act* approval, which involves a filing a notification pursuant to the *Competition Act*. We will likely be seeking an advance ruling certificate from the Competition Commissioner. This will primarily be CPC's responsibility to obtain. No other approvals other than those with respect to the transfer of permits in connection with the Kelson's reorganization and that will be primarily Kelson's responsibility to fulfill those. Also required is a BC Hydro consent and a Ministry of Energy consent in relation to the air permit, that's provided by the Province of British Columbia. We don't expect any issues with obtaining those approvals.

LINDA EZERGAILIS: Okay. And, just to be clear on the contract with BC Hydro. That's on an energy basis?

JIM OOSTERBAAN: It's essentially a capacity contract, it's based on making the unit available to provide capacity. The payments are based on availability.

LINDA EZERGAILIS: What is that availability requirement?

JIM OOSTERBAAN: It's about 90%.

LINDA EZERGAILIS: Great thanks. I'll jump back in the queue.

OPERATOR: The next question is from Sam Kanes, from Scotia Capital. Please go ahead.

SAM KANES: Thank you. Just to stay on the Island investment, there was some history that's a little checkered about Alstom, with that plant bidding on heat rate limitations (i.e. they did not match expectations). This was obviously before your time. I presume that got settled. I was just wondering what that history was. And two, your hurdle rate. Obviously, there are only 12 years left to run with this relatively new facility, you must have assumed some form of terminal value with respect to creating your discount hurdle rate target?

JIM OOSTERBAAN: Let me speak to the first question. I think with respect to the history, Kelson Canada did assume ownership of the unit. There was a payment made of about $50 million. The bulk of that $50 million has been applied to enhancing the performance of the unit. There has been a number of changes that have been made with respect to that, and certainly after conducting our due diligence, we're comfortable that in fact all that money has been applied to the Unit B. Another significant change since that time has been the fact that the host is no longer operating, which does have a positive impact on heat rate. We are expecting that on a go forward basis that the heat rate of the plant will be very close to complying with requirements under the contract with BC Hydro. And that we would expect that we've built that into the economics in the assessment for that.

SAM KANES: So it's not just 90%, it's also a certain heat rate expectation isn't it?

JIM OOSTERBAAN: That's correct. Again, we're assuming we'd be making very modest heat rate penalty payments through the life of the EPA with BC Hydro, and we've factored that into the economics.

SAM KANES: Okay. And, with respect to Year 13, obviously this asset is essential for the Island, but there's no unregulated market in BC yet. You must have had to make some form of assumptions I guess, as to Year 13?

JIM OOSTERBAAN: We're expecting that it's likely that we'd be recontracting that asset in some form with BC Hydro at that time.

SAM KANES: So there's no automatic or five year extension roll over? That's the most logical thing to have happen.

JIM OOSTERBAAN: That's correct, given the size of the unit on the Island and future load growth that is expected on the Island, we don't expect that there will be any additional transmission constructed over that period between the Island and the mainland.

SAM KANES: Thank you.

OPERATOR: The next question is from Matthew Akman from Macquarie. Please go ahead.

MATTHEW AKMAN: Thanks. I guess this is for Stuart on D&A and interest or financing expenses, both of which were up quite a bit year-over-year. And you identified some unusual items that make up a portion of that. Is the rest of it primarily Clover Bar and it coming into service? Is it just expensing the depreciation and capitalized interest on that?

STUART LEE: There's a little bit of that, but if you look at financing expenses Matthew, one of the things you'll find going back to last year is on a full year basis, the numbers are pretty accurate. But on a Q1 to Q2, there's a significant difference between Q1 and Q2 and that's the way the numbers were calculated, when we went through the prospectus period. And so, that's probably the biggest issue on a comparability basis. If you look year-over-year in total, it's probably a little more comparable than just looking at quarter-over-quarter. And then in addition to that, on interest expense, I think as we disclosed, there was about a $4 million mark-to-market loss on the bond forwards recorded in Q2 of 2010, which again was non-cash. We would expect based where forwards have moved onto bonds over the last couple weeks, that some of that may be reversed in Q3.

MATTHEW AKMAN: Okay. Thanks for that. I wanted to get back to the Island transaction for a second. Just to first clarify a wording issue in your slide package.

When you say it meets the minimum 9% hurdle rate, do you mean it exceeds it or it exactly meets it?

STUART LEE: It exceeds.

MATTHEW AKMAN: Okay. Thanks for that clarification. I guess just maybe this is for Brian. Strategically, obviously you think this is a good transaction on its own, but it's just modestly accreted to earnings. There must have been a more strategic kind of rationale for doing this. If you wouldn't mind expanding on that?

BRIAN VAASJO: Certainly Matthew. You're quite right. There is some significant strategic importance to this facility. Certainly it continues to stabilize and add strength to the side of our portfolio that is fully contracted. That's certainly important to us. It provides us greater opportunity to invest in facilities or acquisitions that are more merchant in nature. But the other thing that it does is it adds to the fleet, a significant large natural gas generating facility. These are the facilities we see as more the kind of acquisition opportunities that will be arising over the next little while. For example, those facilities are very similar to those sold in the British Gas transaction earlier this year. More typical of what we see in the marketplace, and certainly from a strategy standpoint, it provides us with more capability on that front.

MATTHEW AKMAN: Okay, great. Thanks for the answers.

OPERATOR: The next question is from Bob Hastings from Canaccord. Please go ahead.

BOB HASTINGS: Just to stay on that Brian, you wanted a gas-fired for strategic purposes, but you've run gas-fired in the past have you not, elsewhere?

BRIAN VAASJO: Oh yes. Certainly there are facilities in the fleet that are to a degree similar, but there's only one "Frederickson" that we operate that is of that size, that's not a peaking facility, or initially intended as a peaking facility. It's certainly is one of the larger assets, and as I say, very similar to the assets we're seeing for sale in the US, and certainly the kind we would more focus on, on the natural gas side, when it comes to development.

BOB HASTINGS: Now, one of the things that was interesting in the comments and the written part was that 9% assuming an accounting treatment? Can you give me clarification on that?

STUART LEE: On the accounting treatment Bob, the EPA profile basically declines over time. On a cash basis, it's certainly more accretive in the front end years. On an accounting basis, we expect that the accounting treatment is likely going to levelize the earnings from that facility are over the course of the EPA, so it will end up with a flat EPS profile, still accretive but flatter than the cash flow profile which will be more heavily front-end weighted.

BOB HASTINGS: So you're starting off with the assumption that it will be lower earnings than what you're likely to actually generate?

BRIAN VAASJO: On a cash basis, yes.

BOB HASTINGS: Right. Okay. And, did you give any consideration to, once you have the plant and the contracts are done in 2022, and a Site C is brought in that maybe it leaves you a bit hostage to whatever the merchant market might be?

JIM OOSTERBAAN: It's certainly a consideration with respect to that. Again, some of the longer term fundamentals are with respect to that is that there still is a need to maintain reliability on the Island. Because of the position of the plant, its size relative to other plants on the Island, the fact that there doesn't appear to be a large pipeline of additional generation being built on the Island, growth, etc., we believe there will be a good opportunity and a fair opportunity to recontract that asset going forward.

BOB HASTINGS: Okay. Can you tell me when the next major turnaround is? I don't think there's been one for a while.

JIM OOSTERBAAN: We believe in about 3 years. I think they call it a C level turnaround.

BOB HASTINGS: Okay. Have you assumed that there would be any more major capex on that plant going forward? To extend its life?

JIM OOSTERBAAN: Not to extend its life, but certainly there will be major capital required as part of the normal maintenance process. That in fact, has been embedded in our financial assessment.

BOB HASTINGS: Okay. Perfect, thank you. And, I noticed you gave some capex numbers for this year. Can you give us a forward look on what your expected wind capex will be year-by-year? You've got a lot coming due to be spent by 2013.

STUART LEE: So, the wind capex if you look at the profile, most of that's spent in 2011 and 2012, with a slightly higher percentage in 2012 than 2011, Bob.

BOB HASTINGS: Okay. Good, thank you. And, I'll get back in the queue. I don't want to ask too many all at once. Thanks.

OPERATOR: The next question is from Andrew Kuske, please go ahead from Credit Suisse.

ANDREW KUSKE: Thank you. Good afternoon. Now, you directly and indirectly touch a lot of different markets across North America. And so just in the context of the deal for the Island Generation unit, I'm just wondering what does that mean from a perspective that we should have on your outlook for power pricing across North America?

There's a number of pure merchant facilities in pretty down-trodden markets that would have had a much lower valuation perhaps in the near term and could have been much more opportunistic from a longer term positioning. Instead of doing that, you've gone for a fully contracted facility for the next 12 years. So, I want to have an understanding of how you look at markets and where power prices are right now.

JIM OOSTERBAAN: Well, I think from our perspective, certainly the fundamental principle is to maintain a mix of contracted and merchant within our fleet that fits within the 40 to 50% range, as Stuart's mentioned and we've mentioned in the past. As we look across the market that we focus on, certainly we do expect modest growth in demand in our target markets in the US and I think as well some modest recovery in some market's capacity prices and certainly in others in spot power prices as a result. Again, I say modest. You're certainly right about the valuations of assets. In all those markets that I suggest, almost all those assets that are for sale right now, at least with what I would call 'formal announced processes', is that they are predominantly merchant. And there hasn't been, I think, very many contracted assets that have come onto the market yet, and I really don't know that there's a benchmark that we could attribute to how you'd value that going forward. Certainly the recent transactions on the merchant side in the US would get you somewhere between $350 to $500 a kilowatt, depending on what market and what type of asset, whether it's simple cycle or combined cycle.

BRIAN VAASJO: Andrew, Brian here. Maybe to add to that, just the way in which you phrased your question implied that we were in a decision where we would take this asset versus another one, say that was a merchant asset in the US. Part of our discipline is to go through and as we see good fundamental projects and good fundamental opportunities, to pursue those whether they be contracted or merchant. Because we transacted on this, I can assure you that it has not limited or eliminated our active pursuit of merchant and contracted opportunities in Canada and the US. It hasn't and did not preclude us from doing something else.

ANDREW KUSKE: I guess on a more positive note, do you believe the Island Generation facility and owning that facility will hold you in a little bit better favour with the BC government when it comes to future RFPs within that province for new generation capacity?

BRIAN VAASJO: So, specifically as it relates to RFPs in BC, as you well know they have a number of criteria they look at, dollars per megawatt, or cents per megawatt being one of the more significant ones. Certainly it helps in terms of building our credibility and as they look through RFPs and determine those parties in which that can execute and can operate, and would continue to stand us well. As it sits today, between Capital Power and Capital Power Income LP, we operate more plants in British Columbia than anybody else. And with the addition of this facility, we are by megawatts the largest IPP in British Columbia. We are actually quite prominent in the BC market.

ANDREW KUSKE: That's very helpful, thank you.

OPERATOR: The next question is from Linda Ezergailis, from TD Newcrest. Please go ahead.

LINDA EZERGAILIS: Thanks. Just some follow ups on this Island acquisition. In your accounting statements when you closed the transaction, over what period will you be amortizing the acquisition? Will it be the full $207 million?

STUART LEE: Typically we would amortize the asset for natural gas over about a 30 year period.

LINDA EZERGAILIS: And the cash flow decline profile – is that a flat decline or is it asymptotic? How is that shaped?

STUART LEE: It's a relatively straight line decline. We will provide more economic information on close when some of the confidentiality requirements are off. It's difficult to get into the specifics given the confidentiality requirements. We will on close provide more information on a forward-looking basis.

LINDA EZERGAILIS: What sort of financing assumptions are you making behind your accretion?

STUART LEE: For accretion assumptions we've used a 50/50 debt to equity.

LINDA EZERGAILIS: Okay. Is permanent financing being put in place right away?

STUART LEE: We expect permanent financing to be put in place near close.

LINDA EZERGAILIS: Okay. On a separate topic, your trading business going forward. Obviously we've seen some volatility; a really strong Q1 and a not so great Q2. Do you expect that volatility to continue? How might we think of an appropriate run rate going forward?

BRIAN VAASJO: Linda, Brian Vaasjo here. So just in terms of Q1 and Q2, those would be what we expect to see the extremes. We wouldn't expect on an ongoing basis to see those kinds of quarters reoccur. So, I think you've pretty much seen the book-ends. One of the things about the Alberta market, and any market as it goes forward, as there becomes a little more tension between supply and demand, you start seeing greater and greater volatility. So we expect to see greater volatility in the market itself but as I say, in respect to our results, I don't really expect to see the kind of volatility at all that we've seen through Q1 and Q2 of this year.

LINDA EZERGAILIS: Okay. And the run rate going forward would be unchanged in terms of levels for modelling purposes?

BRIAN VAASJO: We continue to expect that in the longer term, that element of our business would be contributing at least 10 cents a share.

LINDA EZERGAILIS: Great. Thank you.

OPERATOR: The next question is from Robert Kwan, from RBC Capital Markets.

ROBERT KWAN: Great, thank you. Just on the trading contribution during the quarter, do you have what the number would have been for Q2 versus Q1? That's the amount in commercial.

STUART LEE: On EPS or absolute dollar?

ROBERT KWAN: Whatever you've got. Absolute dollar, at EDITDA, would be good.

STUART LEE: On absolute dollar Robert, the first quarter was positive, around $10 million. The second quarter we were off about 7.

ROBERT KWAN: Is that a 7 loss?

STUART LEE: Not necessarily loss, but versus our forecasts.

ROBERT KWAN: OK so, when you say positive 10 in Q1 - that was 10 above the forecast? So, $17 million swing sequentially?

STUART LEE: Correct.

ROBERT KWAN: Okay. Can you give me a sense of what were some of the major positions that went against you during the quarter?

JIM OOSTERBAAN: Well as we disclosed at the end of Q1, we did have a shorter position in our Alberta market that went in our favour. As we moved into Q2, we had a relatively short position but with the outages we had mentioned in the Clover Bar units, the extension of transmission outages within-Alberta and ex-Alberta, and transmission capacity coinciding with some favourable weeks of summer weather we've had in Alberta we had May prices averaging about $135 a megawatt. That just happened to coincide with the short position that we were trying to alleviate, but were unable to alleviate completely.

I think, and it's been alluded to earlier, that also coinciding with the month that we did have the Genesee outage and certainly much higher availability incentive payments that had to be made as a result of the unit not being available under the PPA contract with the off-takers.

ROBERT KWAN: Okay. I guess just from a high level perspective then, do you manage the trading book in conjunction with… it doesn't sound like you manage it in conjunction with what the physical is. You must have known going into Q2 that you were structurally short, yet it sounds like the trading book was short as well.

JIM OOSTERBAAN: No. We're not structurally short. We are always structurally long being a physical generator in the province. As we came into the year, and certainly on an annual basis we are well-hedged. But, for the quarter we were expecting to be short. Because of the availability of having the Clover Bar plants gives us the physical backstop for any short position that we did have. Again, with the loss of those units we started to pull back, fill that short. And then, we tried to do that again in some pretty high-priced market conditions. So, I think what caught us perhaps was the extension of the duration of some of the transmission outages, some unplanned outages at other units that weren't foreseen, and then the combination of results with some pretty high priced month. We were unfavourably impacted by that not only on our trading book but also with our contracted plants.

ROBERT KWAN: Just in the hedging section of the outlook, you talked about putting on some additional lengths during the quarter. It looks like the 2010 hedged amounts were the same, but the 2011 amount actually looks like it went down by about 10%. Can you just give some colour on that? And then, it looks like the prices have increased modestly. Can you give an explanation on that as well?

STUART LEE: So for 2011, we have taken off a little bit of our length, or added a little bit to our length and taken off some of our financial sells, which is up slightly from the expected settled prices for 2011, I think as disclosed. With regards to 2010, we have added a little bit of length for the back half of 2011, but remain basically substantially hedged for the balance of the year.

ROBERT KWAN: So the length is just your long, more merchant power versus actually extending term?

JIM OOSTERBAAN: I'm not sure I know what you mean by extending term?

ROBERT KWAN: Well, just hedging out 2012 or 2013.

STUART LEE: We're just reflecting 2010 and 2011 in our disclosure.

ROBERT KWAN: Okay. The last question I have is on the acquisition. You talked about equity financing and 50/50. Can you give some more colour about the type of equity financing you might have factored into your base case?

STUART LEE: So again, we're just talking about accretion. To provide accretion metrics we have factored a 50/50 debt equity split. Actual financing we will look at a little bit closer to close. We will look at the different costs of different forms of capital, which would include obviously long term debt, common equity and potentially preferreds.

ROBERT KWAN: Okay. So on the equity side, it sounds like common equity is your base case and maybe some preferred? Or is it the other way?

STUART LEE: Again, depending on availability and pricing of the different components.

ROBERT KWAN: As it stands today, is common equity where you'd be?

STUART LEE: As it stands today, it's a possibility Robert. It's one of the three components we'd look at. We haven't landed on firm conclusions around it.

ROBERT KWAN: Okay, great. Thank you very much.

OPERATOR: As a reminder if you'd like to queue up to ask a question please dial '01' on your phones. The next question is from Bob Hastings from Canaccord. Please go ahead.

BOB HASTINGS: Hi. Thank you. The bond loss that you mentioned, is that included in the 5 cent normalized earnings per share number given in the second quarter?

STUART LEE: No. I think it would have been taken out of the normalized earnings.

BOB HASTINGS: Okay. Going back to a question on the Island. That plant has changed hands a few times actually. Can you remind me what the tax treatment might be after you bought the asset?

STUART LEE: On Island Generation, I think we will end up in a bump-up of the UCC value associated with it on the acquisition.

BOB HASTINGS: So you get the full 207?

STUART LEE: Based on the way that they're structuring it right now, that's the expectation.

BOB HASTINGS: And, the average CCA rate on that would be what…8% or something?

STUART LEE: I'd have to go back and check, Bob. Off the top of my head… I don't have it in front of me.

BOB HASTINGS: Okay. And, I think the answer to one question you gave earlier was the life of the gas plant would be 30 years. Given this one's already been operating…I just want to be clear. Are you assuming it's got thirty years more of operating life, now you've bought it? Or the remaining life?

STUART LEE: The remaining life.

BOB HASTINGS: Okay. Thank you very much.

OPERATOR: The next question is from Matthew Akman from Macquarie. Please go ahead.

MATTHEW AKMAN: Hi. Just a quick last question on the hedging book for 2011. I've probably missed something here, but I thought last quarter when you reported, you said that 80% of 2011 was hedged, and now 70% is hedged. What did I miss? Or am I totally wrong?

STUART LEE: No. You've identified the fact that we've opened up our position a little bit heading into 2011.

MATTHEW AKMAN: Is that what you were talking about with Robert?

STUART LEE: Yes.

MATTHEW AKMAN: So you've actually opened up some of the position and the pricing has gone up?

STUART LEE: Pricing has moved up a little bit, but not materially from where it would have put the original hedges in place and taken a little bit of it off. It's pretty consistent with where it was on.

MATTHEW AKMAN: That includes the portion of Keephills 3 you expect to have in service next year?

STUART LEE: Correct.

MATTHEW AKMAN: Okay. Thanks for that clarification.

OPERATOR: Randy, there are no further questions.

RANDY MAH: Okay. If there are no more questions we will conclude our call. Thank you for your interest in Capital Power. We look forward to working with you over the coming quarters. Thank you.

OPERATOR: Ladies and gentlemen, this concludes the Capital Power Corporation conference call. Thank you for your participation. Have a nice day.

[CONFERENCE CALL CONCLUDED]