CAPITAL POWER CORPORATION
Q4 2010 Results and Acquisition of Bridgeport Energy Conference Call - Mar 9, 2011

OPERATOR:
Welcome to the Capital Power Corporation's conference call to discuss the fourth quarter 2010 results and the acquisition of Bridgeport Energy. 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 Wednesday, March 9th, 2011 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. Yesterday, Capital Power announced its fourth quarter and year-end 2010 results, the acquisition of Bridgeport Energy facility and a $202 million common equity offering from treasury. The press releases on these announcements and the presentation slides for this conference call are posted on our website at www.capitalpower.com. This conference call is also being webcast from our website.

Joining me on the call this morning is Brian Vaasjo, President and CEO, Stuart Lee, Senior Vice-President and Chief Financial Officer, and Brian DeNeve, Senior Vice-President, Commercial Services.

We will review our fourth quarter results first, followed by an overview of the Bridgeport acquisition. After our 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 number 2. Certain information in this presentation and in responses to questions 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 projection as reflected in the forward-looking information are disclosed on pages 24 to 26 of this presentation and in the company's fourth quarter 2010 Management's Discussion and Analysis. There is also additional forward-looking information contained in the March 8th, 2011 press release on the Bridgeport Energy acquisition. Both the MD&A and the Bridgeport press release have been filed on SEDAR at www.sedar.com.

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

BRIAN VAASJO:
Thanks, Randy.

Yesterday Capital Power announced three very exciting items. We reported financial results for 2010, our first full year as Capital Power, which exceeded our targets, with full-year normalized earnings of $1.40, compared to our expectations of about $1.20 entering the year. We announced the acquisition of the 520 megawatt Bridgeport Energy facility in Connecticut, which along with Tiverton and Rumford plants will form the foundation for a hub of power generation assets in New England. And we announced the first common share issue from treasury by Capital Power since the initial public offering. We'll provide updates on each of these items today.

Turning to Slide 4, I'll begin with an update on our performance in the fourth quarter.

Capital Power delivered solid performance in the fourth quarter with normalized earnings per share of $0.26, which slightly exceeded our expectations. The fourth quarter also had a strong operating performance with a 91% average plant availability. Our largest construction project, Keephills 3, remains on schedule to begin commercial operations by the end of the second quarter of this year.

In December, EPCOR Utilities Inc. completed a $221 million secondary offering of Capital Power common shares. The offering reduced EPCOR's economic interest in Capital Power's business to 60.5% at that time and resulted in a 42% increase in the public share float, which has increased trading liquidity. Yesterday's treasury offering further increases liquidity while reducing EPCOR's interest to 54%.

Capital Power continued to make solid progress on executing its growth strategy in the fourth quarter. In October, we closed a $207 million acquisition of the Island Generation facility.

That momentum has continued into 2011 with the announced acquisition of the Rumford and Tiverton power plants for $315 million and yesterday's announcement of the $355 million acquisition of the Bridgeport Energy facility. Combined, these acquisitions represent a $670 million U.S. investment in the New England region; one of our target markets for growth. The three facilities we're acquiring will add 1,069 megawatts of gas-fired generation to our fleet.

Turning to slide 5, I'll review the operating performance of our plants in the fourth quarter and for 2010. As you can see the three circles on the slide, we have lower plant availability from Genesee 3 and Miller Creek facilities due to scheduled maintenance outages for 42 days and 89 days, respectively. Overall, excluding Capital Power Income L.P. plants, we reported an average plant availability of 91% in the fourth quarter and 90% for all of 2010.

For 2011, Unit 3 of the Clover Bar Energy Centre has an unplanned outage in January due to blade damage in the high-pressure compressor. The unit was taken out of service and was returned to the manufacturer for evaluation and repair. GE is currently evaluating whether the cause of the outage is covered under warranty. We estimate that Unit 3 will return to service by June 30th of this year. In the meantime, Clover Bar Units 1 and 2 continue to provide peaking power service for us in the Alberta market.

Moving to slide 6, I will review our 2010 performance against the corporate priorities that we established at the beginning of 2010. First, our operational targets included an average plant availability target of greater than or equal to 94%. As we indicated at Investor Day in December, our 90% plant availability performance was below this target, due to mechanical issues with the Clover Bar Unit 2 that caused the unit to be off-line for more than six months. Mechanical issues were covered under the manufacturer's warranty.

Also under the operational targets we reported sustaining capex of $56 million in 2010 that was near the target of $60 million.

For our construction and development objectives, we continue to be on track for CPC's share of final costs of the Keephills 3 project at less than or equal to $955 million and for completion by the end of the second quarter of 2011.

We had a $500 million target for capital opportunities that met or exceeded our rate of return. In 2010, we doubled the target by committing $1 billion to two wind projects, Quality Wind and Port Dover Nanticoke, and the acquisition of the Island Generation facility.

Finally, we generated strong financial results against our 2010 financial targets. We reported normalized earnings per share of $1.40, which exceeded our targeted normalized earnings per share of approximately $1.20. We refinanced $300 million of existing debt, compared to a $245 million target.

Overall, I am very pleased with the company's performance in 2010 versus our stated goals. I will now turn the call over to Stuart.

STUART LEE:
Thanks, Brian. I will start off with a summary of the fourth quarter financial results starting on slide 7. We reported normalized EPS of $0.26 in the fourth quarter of 2010, which is up 44% compared to the fourth quarter of 2009.

The higher earnings were attributed to a realized price of $64 per megawatt hour for the Alberta Commercial Plants and Portfolio Optimization segment, which was $18 higher than the average Alberta spot price. The increase in Alberta spot prices and price volatility provided opportunities to dispatch the Alberta commercial peaking and mid-merit plants, resulting in strong contributions to revenues and operating margin.

We were active in the capital markets in the fourth quarter of 2010 issuing both debt and equity. In November, we issued a $300 million 10-year medium-term note with a yield of 5.28%. On the equity side, we issued $125 million in preferred shares in December with a yield of 4.6%.

At the end of 2010 Capital Power's debt to capital ratio was 36%, which was below our targeted range of 40% to 50%, which provided ample room to finance the growth initiatives which we have since undertaken.

Turning to slide 8, this slide summarizes our year-over-year financial performance in the fourth quarter of 2010 compared to 2009. Revenues before fair value changes in derivative instruments and natural gas inventory held for trading were $478 million in the fourth quarter of 2010, which was comparable to the $474 million reported in 2009. Operating margin of $124 million was up 3.3% and normalized EPS of $0.26 was up 44% compared to the $0.18 reported in the fourth quarter of 2009.

Finally, Capital Power generated healthy operating cash flow in the fourth quarter. Funds from operations, excluding non-controlling interests in CPILP, were $62 million, up 19% compared to the $52 million reported in the fourth quarter of 2009.

Turning to slide 9, this slide covers our current hedge positions in Alberta power market. At the beginning of 2011 the company expected 2011 Alberta power prices to remain near the bottom of the power price cycle following recovery in 2012. However, with TransAlta announcing force majeure under the PPA for its Sundance 1 and 2 units in early February, we have seen an increase in both spot power prices and forward rates.

At the start of 2011, approximately 73% of our base load generation for 2011 was hedged at an average price in the low-$60 per megawatt hour range. For 2012 approximately 34% was hedged and averaged in the mid-$60 per megawatt range. Finally, approximately 17% was hedged in 2013 at an average price in the mid-$60 per megawatt range.

Turning to slide 10, I'll wrap up with a financial review of our 2011 financial outlook. In January 2011, we provided our initial guidance, stating that 2011 normalized EPS is expected to be comparable to our original forecast for 2010 normalized EPS of $1.20. This was based on an average Alberta spot price forecast at $50 per megawatt hour for 2011. This was also based on our hedge positions in late 2010 when 65% of the 2011 base load coal generation was hedged at an average price in the mid-$60 per megawatt hour range.

Two months into the year, based on the significant event that has transpired with the Sundance 1 and 2 outages, we are providing an update to the original guidance. We now expect full-year earnings, normalized earnings and cash flow to exceed original guidance if Alberta power prices settle near current forward rates.

Average Alberta forward prices have increased from about $45 per megawatt hour to $65 per megawatt hour from the end of the third quarter of 2010 to mid-February 2011, following TransAlta's Sundance announcement. With the uncertain outcome relating to the Sundance 1 and 2 announcement, it is difficult to determine at this time whether the positive impact on Alberta power prices is sustainable.

Although we expect full year earnings to be higher, first quarter 2011 earnings and cash flow are expected to be lower than original expectations and lower than the first quarter of 2010 based on the company's Alberta positions in the first two months of 2011.

I will now turn the call back to Brian.

BRIAN VAASJO:
Thanks, Stuart. With our 2010 review completed, I'll quickly review our 2011 corporate priorities on the next two slides. These priorities are the same as we announced in December at Investor Day.

For our operational targets, we targeted 94% plant availability for Capital Power's facilities, which included one scheduled maintenance outage for the Genesee facility. Likely we will fall short of that target with the outage at Clover Bar that we are currently experiencing. Maintenance capital is targeted to be less than or equal to $40 million in 2011.

On our development and construction targets, we set a target of greater-than-or-equal-to $1.5 billion for committed capital to acquisitions or developments that are in line with our target rates of return. With the Keephills 3 project, we are targeted, our share of the final cost to be less than or equal to $955 million with COD planned for late in the second quarter of 2011.

Finally, as we continue developing our two wind projects - Quality Wind and Port Dover Nanticoke - we are targeting both projects to be on budget and on time with COD on both projects in 2012.

Turning to slide 12 with a review of our financial targets. These financial targets are based on our original guidance provided in January 2011. As Stuart noted in his updated financial guidance, the original financial guidance may change depending on where Alberta spot prices end up during the year. Our original guidance for normalized EPS was approximately $1.20 based on $50 per megawatt hour Alberta power prices with both funds from operations and cash flow per share expected to be modestly higher than 2010. We also expect a modest improvement on the dividend coverage ratio compared to 2010.

Overall, Capital Power seeks to deliver total shareholder return that exceeds the median performance of our peer group.

We will now review the acquisition of the Bridgeport Energy facility and the equity offering beginning with slide 14.

The acquisition of Bridgeport Energy demonstrates Capital Power's commitment to growth in our target markets and builds on the recently announced acquisitions of power plants at Tiverton, Rhode Island and Rumford, Maine.

As I discussed with you a few short weeks ago, Capital Power has a strong platform for sustainable growth. Specifically, we have a large, high quality generation portfolio, a young and modern fleet, proven operating and construction history and financial strength with consistent access to capital. We consider each of these to be integral for us to achieve our goal of tripling our size to 10,000 megawatts by 2020 on a consistently accretive basis.

This transaction is consistent with and builds upon each of these corporate strengths. It is another example how we are building momentum towards our long-term goal with a consistent growth strategy that we have spoken to you about since the IPO.

Bridgeport Energy has a nominal capacity of 520 megawatts and is consistent with the average size of assets in our fleet. At approximately 12 years old, Bridgeport is near the 13-year average age of our current fleet. The technology at the plant is efficient, proven technology with which Capital Power has operating experience. The transaction exceeds our internal rate of return target for merchant assets. And lastly, the plants are natural gas facilities that are located in our targeted U.S. Northeastern market.

Turning to slide 15, the Bridgeport Energy facility is a strong fit with our technology and operating focus, which are key elements of our strategy of building network hubs in target markets.

In combination with the recently announced acquisition of power plants in Tiverton, Rhode Island, and Rumford, Maine, a strong foundation for a network hub in the New England market has been assembled.

Thus for 2011 Capital Power has committed $670 million U.S. in the New England region, representing more than 1,000 megawatts of natural gas-fired generation.

Capital Power's approach of managing assets at the hub level, rather than at the individual facility level improves efficiency and reduces risk. With three facilities in the region, we expect to begin realizing synergies in operations, maintenance, energy and asset management, and power marketing.

Turning to slide 16, I will provide a brief overview of the transaction. An agreement has been reached with LS Power Equity Advisors, LLC to acquire Bridgeport Energy, LLC, which owns the Bridgeport Energy facility.

The buyer under the Purchase and Sale agreement for the transaction is Capital Power L.P., a subsidiary of Capital Power

Corporation and the legal entity that directly and indirectly holds Capital Power's assets.

The purchase price for the acquisition is $355 million U.S., subject to working capital and other closing adjustments. For more details on the financial expectations and financing of this transaction, I will now turn the call over to Stuart.

STUART LEE:
Thanks, Brian. On slide 17 I'll provide an overview of our expectations for this acquisition. The acquisition exceeds our unlevered after-tax internal rate of return of 11% for merchant assets.

We expect the acquisition of Bridgeport Energy to add an average $0.03 to earnings per share during the first five full years with a neutral EPS impact in the first two full years based on deemed capital structure using 60% equity and 40% debt financing.

Similar to earnings from Rumford and Tiverton, earnings from the Bridgeport facility are expected to increase significantly with the expected recovery of power prices in the New England market as the U.S. economy strengthens.

The transaction is expected to close in May 2011, subject to regulatory approvals and satisfaction of other customary closing conditions. At close, we will provide additional guidance, including EBITDA projections.

Turning to slide 18, I will discuss the financing of the New England acquisitions. We expect to permanently finance the two New England acquisitions using a combination of both equity and debt. For common equity, Capital Power has entered into an agreement with a syndicate of underwriters co-led by TD Securities and CIBC World Markets. The company has agreed to sell 8.1 million common shares of Capital Power on a bought deal basis at a price of $24.90 per share for gross proceeds of approximately $202 million.

Capital Power has granted the syndicate an over-allotment option exercisable for a period of 30 days following closing to purchase up to an additional 1.215 million common shares, which if exercised, would increase the gross offering to about $232 million. The offering is scheduled to close on or about March 17th, 2011 and subject to TSX approval and other customary conditions.

On a pro forma basis today, taking into account our announced acquisitions and the treasury offering, our debt to total capital ratio would be approximately 42%.

I'll now turn the call over to Bryan DeNeve to tell you more about the Bridgeport Energy facility.

BRYAN DENEVE:
Thanks, Stuart. Turning to slide 19. The Bridgeport Energy facility has a 520 megawatt nominal capacity and is a natural gas combined cycle plant located in Bridgeport, Connecticut. It is able to generate an additional 20 megawatts with its winter generation capacity of 540 megawatts.

The facility is approximately 12 years old and is consistent with Capital Power's young fleet of power plants. It commenced operations in 1999 and has an expected remaining useful life of 30 years.

Historically, Bridgeport Energy facility has received payments for energy, capacity and ancillary services, which we expect would continue into the future.

On this slide, we have included a map of the Northeastern United States, which highlights the close proximity of the other two recently acquired plants. Rumford Power is located in Maine and Tiverton is located in Rhode Island.

Moving to slide 20, I'll talk a little bit more about the equipment used in the Bridgeport Energy facility. The facility is equipped with two Siemens gas turbines. It is able to generate additional output from two heat recovery steam generators and one steam turbine. The gas turbines use the same design as those that Capital Power operates at the Manchief facility in Colorado. These gas turbines are very efficient, with Manchief achieving the 94% plant availability over the past five years.

The Bridgeport Energy facility is a modern, efficient plant that has among the lowest heat rates in the ISO-New England market. The facility is designed to minimize environmental impacts and utilizes advanced emission control technologies.

Turning to slide 21. In closing I will review the transition plans for Bridgeport. We expect potential savings can be realized from operating and maintenance costs.

The Bridgeport facility is currently operated and maintained by a third party contractor whose services are expected to continue in the near term. We expect O&M services to be ultimately provided by Capital Power and the employees to become part of the Capital Power organization.

There is a long-term service agreement with Siemens Power Corporation for the gas turbine equipment, which we expect to review and optimize. We also expect to internalize the facility's engineering and technical service requirements, which is currently being performed by third parties and to streamline the environmental support function.

With our three merchant assets in the U.S. Northeast, we expect increased portfolio value from the power marketing, and energy and gas trading. Capital Power's Commodity Portfolio Management group has traded and managed assets in the U.S. Northeast for a number of years. With the addition of three plants and over 1,000 megawatts of generating capacity, we expect to see increased margins, optimized risk management and improvements in the power marketing, origination, and gas and energy trading functions as these groups continue to grow.

I will now turn the call back to Randy.

RANDY MAH:
Okay. Thanks, Bryan. Donovan, we're ready to start the question and answer session.

QUESTIONS AND ANSWERS:

OPERATOR:
So, I would like to remind everyone to ask a question, please press "01" now. To withdraw your question, press the "#" sign.

Okay. So our first question is from Juan Plessis; please go ahead.

JUAN PLESSIS:
Thank you very much. With regard to your recent acquisitions, you now have a fair bit of capacity in the New England market and I believe during your Investor Day you had mentioned that the surplus capacity in that market was not likely to disappear until 2019. I'm just wondering, is that still your expectation? And maybe you could update us on your outlook for that market in terms of timing for capacity retirement and demand growth.

BRYAN DENEVE:
Yes, our expectations in the market continue to become more optimistic as we

see continued recovery in the market and also in terms of the rules which we think will affect retirements of existing assets. So, certainly our view of the market is consistent with Investor Day, but probably a little more optimistic than at that time.

JUAN PLESSIS:
Okay. Thank you for that. And I was just wondering if you can provide us with the heat rates for that plant and maybe some historic operating and availability rates.

BRYAN DENEVE:
Okay. So the heat rate at full capacity of the facility is right around 7,000, in fact maybe slightly below 7,000. And historically the plant has operated at the 90% availability level, which we expect to continue into the future.

JUAN PLESSIS:
Okay. And operating rates, do you have that?

BRYAN DENEVE:
Capacity factor?

JUAN PLESSIS:
Yes.

BRYAN DENEVE:
Yes. Again, historically it has operated in the 60-70% range and we expect that will increase as the market tightens in the U.S. Northeast.

JUAN PLESSIS:
Okay. Thanks for that. And if I could shift gears a bit. In your statement in your outlook section, you have a statement regarding the Alberta portfolio position, stating that if prices for the balance of 2011 settle at the forward rates of early March 2011 you expect full year earnings and funds from operations to exceed previous guidance and internal plans. The question is for forward rates for the beginning of March, is that the same forward rate, the $65 you mentioned in the presentation? And secondly, at what price does the balance of 2011 spot have to settle in order for earnings to be in line with your original guidance?

STUART LEE:
So on the first question, the $65 is consistent with what we have in the presentation, Juan. And on the second point, again we provided guidance coming into the year. Typically we refresh our forecast every quarter and at this point in time, we haven't refreshed that forecast and we'll provide that additional insight coming in to the Q1 earnings call.

JUAN PLESSIS:
Okay. Thank you very much.

OPERATOR:
Okay. Our next question is from Robert Kwan from RBC Capital Markets; please go ahead.

ROBERT KWAN:
Great. Thank you. Just on Bridgeport, the accretion that you're talking about is that based off of the $1.20 a share or is it a different number?

STUART LEE:
It's really a reflective, Robert, more in our view of 2012 and 2013, again, given the fact that this isn't likely to close until May and we'll have just better than half a year's earnings in 2011.

ROBERT KWAN:
Okay. And then the two-year neutral before it becomes accretive, is that just based on your price deck or is there something else going on there with respect to -- you mentioned maybe it's the operating contracts or something else?

STUART LEE:
It's based on a view of expectation of recovery in that market and improving margins associated with the facility going forward. And again, one of the things that we face with our Alberta portfolio is a recovery in the near term in Alberta, which makes it more difficult to get accretion in early years in other markets. But certainly as we see recovery timeframe out past a couple of years, we expect to see additional accretion coming from facilities like those in New England.

ROBERT KWAN:
Okay. And then just last on pricing, are you using the same assumptions adjusted for any basis as you would have for Rumford and Tiverton?

BRYAN DENEVE:
Yes, they would be consistent.

ROBERT KWAN:
Okay. Just turning to Clover Bar 3, looks like you're introducing a bit of uncertainty with respect to the warranty. Kind of seemed a bit like there might have been a serial defect. So, can you just provide some more colour as to what the uncertainty is?

STUART LEE:
I don't think there's any specific uncertainty or anything's changed. Again, we're waiting to hear back on the report from the OEM as they inspect the equipment. And so I don't think the uncertainty's changed at all it's just we're waiting for that report back.

ROBERT KWAN:
Okay. And then just the last question, I guess it seems like the power book was short for January and February. Is there any just directional commentary as to, you know, have you kind of squared it off and really reduced the exposure? Just looking at kind of the variance versus your view about settling against the forward curve.

STUART LEE:
It may be worthwhile commenting, Robert, just on how we are positioned coming through January and February and the balance of the year. And coming in, we were fairly flat coming through January and February and a couple of things happened. One, obviously, we lost Clover Bar 3, which impacted our position and ability to support it. But also, February weather settled about 20% lower than long-term historical averages, so demand was up significantly. We have contracts, particularly for RRT, where we have to supply those under contractual requirements and with the additional demand, we take that weather risk. And so it effectively turned it into a short position for us which given the spike in power prices, particularly in February, economically obviously is going to have a negative impact.

Having said that, if we look at the balance of the year and our exposure on the open position for the balance of the year, we feel very comfortable that our 2011 earnings on a full year basis should be above expectations if forward prices settle at where they are today.

ROBERT KWAN:
Okay. So just to be clear, so it was really the RRT is what you're seeing in Q1, the Clover Bar going down, I assume just based on a $50 deck against guidance, that wasn't expected to produce a lot in the way of earnings? Is that fair?

STUART LEE:
No, not expected to produce a lot in the way of earnings, but certainly to support any positions that we may have taken.

ROBERT KWAN:
Okay. Great. Thank you very much.

OPERATOR:
Okay. There are currently no further questions in the question queue at the moment.

RANDY MAH:
Okay. If there are no further questions, we will conclude our conference call. Thank you for your interest in Capital Power and have a good day everyone.

OPERATOR:
Ladies and gentlemen, this concludes the Capital Power Corporation's conference call to discuss the fourth quarter 2010 results and the acquisition of Bridgeport Energy. Thank you for your participation and have a nice day.

[**CONFERENCE CALL CONCLUDED]**