Capital Power Corporation
First Quarter Results Conference Call - May 2, 2011; 7:00 AM MST

OPERATOR:
Welcome to the Capital Power Corporation's conference call to discuss the first quarter 2011 results. 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 call is being recorded on Monday, May 2nd, 2011 and 7 am 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. On Friday, April 29th Capital Power released it's first quarter 2011 results. The press release of the first quarter results and the presentation slides for this conference call are posted on our website at www.capitalpower.com. This conference call is also being webcasted from our website.

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

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 two. 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 or 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 16-18 of this presentation and in the Company's first quarter 2011 Management's Discussion and Analysis, which has 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 three.

BRIAN VAASJO:
Thanks Randy. I'll begin with an update on a number of items.

Capital Power delivered first quarter 2011 financial results that were consistent with management's guidance provided in our fourth quarter 2010 release on March 8th. Normalized earnings per share were $0.33 in the first quarter compared to 51% (should be $0.51) in the first quarter of 2010. Funds from operations, excluding non-controlling interests in CPILP, were $78 million, up 10% from the $71 million in the first quarter of last year.

We successfully closed the New England acquisitions at the end of April. The three New England facilities added 1,069 MW to our fleet.

Capital Power continues to have strong access to the capital markets. In the first quarter, we completed $232 million equity offering through the issuance of 9.3 million common shares increasing the public float by 30%. EPCOR's interest in Capital Power is now at 54%. We also issued $300 million in Medium Term Notes.

At the Keephills 3 construction project, due to additional time required to clean the boiler, we've moved the expected commercial operation date to the third quarter of this year. An additional $20 million to $30 million of capital is expected, which represents about 2% of the company's share of the project costs. The shift to commercial operation in the third quarter is expected to make a slightly positive contribution to 2011 net income, and have a slightly negative impact on 2011 cash from operating activities.

Turning to slide four, I'll review the operating performance of our plants in the first quarter of 2011. Total power generation was up 8.4% from the first quarter 2010, with 2,451 GWh generated.

On an availability basis, excluding Capital Power Income L.P. plants, our facilities delivered 93% availability for the quarter, which matched our performance in the first quarter of 2010. This solid availability level was achieved despite the outage at Clover Bar Unit 3.

Genesee 2 & 3 both delivered 100% availability in the first quarter and our recently acquired Island Generation plant again hit 99% availability.

At Genesee 1, availability was 92% for the quarter. This slightly lower performance was due to a 4-day outage in February when we repaired a tube leak, and the start of a 21-day maintenance outage which began on March 28th, removing another 4-days of availability from the quarter.

Availability at Clover Bar Energy Centre was 65% for the quarter, due to the outage at Unit 3. We continue to expect that Unit 3 will return to service by June 30th of this year. In the meantime, Clover Bars Units 1 & 2 continue to provide peaking power, giving Capital power the stability to realize value during periods of price volatility.

I'll now turn the call over to Stuart.

STUART LEE:
Thanks Brian. I'll start off the financial summary of the first quarter results starting on slide five.

We reported normalized EPS of $0.33 in the first quarter of 2011, which was 35% lower than the first quarter of 2010, primarily due to lower margins on the Alberta commercial portfolio.

Looking back a year ago to the first quarter of 2010, spot prices in Alberta averaged $41/MWh, and Capital Power achieved a realized price of $67/MWh. In the first quarter of 2011, spot prices rose to an average of $82/MWh, while our realized price remain stable at $63/MWh. Capital Power's results in the first quarters of both 2010 and 2011 primarily reflect that a significant portion of the Alberta portfolio was sold forward as we entered those months.

Q1 2011 earnings in the Alberta commercial plants and portfolio optimization segment also reflect higher availability payments made out of the Sundance PPA, due to higher rolling average prices. Those payments were partly offset by higher contributions from the Joffre and Clover Bar units, as higher Alberta spot prices and increased volatility provided more opportunities to dispatch those mid-merit and peaking plants.

As I'll discuss in a moment, if Alberta power prices continue to settle at higher levels for the remainder of 2011, we expect to realize a significant increase in earnings through the remaining three quarters.

Turning to slide six, this slide summarizes our year-over-year financial performance in the first quarter of 2011 compared to 2010.

Revenues and other income, before fair value changes in derivative instruments and foreign exchange contracts and natural gas inventory held for trading, were $504 million in the first quarter of 2011, up 4.1% from the $484 million reported in Q1/10. EBITDA, also before the various fair value changes, was $114 million, down 15% from the same period a year ago. We reported normalized EPS of $0.33 which was lower than the $0.51 reported in the first quarter of 2010. Finally, Capital Power generated healthy operating cash flow in the first quarter. Funds from operations, excluding the non-controlling interests in CPILP, were $78 million, up 10% compared to the $71 million reported in the first quarter of 2010.

On the next two slides, slide seven and eight, I'll discuss the impacts of the transition to IFRS reporting. The transition to IFRS had an immaterial impact on opening equity. Going forward, the earnings is expected to be modest.

Overall, the expected 2011 IFRS impact is a $5 million reduction to income before tax, which is driven by the following changes. First, approximately $11 million of the expected $13 million of the maintenance costs for Genesee 1 scheduled outage is expected to be capitalized under IFRS rather than expensed, and depreciated over the next two years. Second, $5 million of Capital Power's share of maintenance costs for the Joffre plant are expected to be capitalized and depreciated under IFRS rather than expensed. Finally, depreciation expense will include approximately $20 million for depreciation on the current and prior years' shutdown maintenance costs that are capitalized under IFRS compared to being expensed as incurred under previous Canadian GAAP. The Genesee Mine Joint Venture was proportionately consolidated under previous Canadian GAAP but is fully consolidated under IFRS. It has no bottom line earnings impact but has an additional $10 million annually to the depreciation which is backed out through NCI and adds $90 million of additional PP&E and NCI on the balance sheet.

Turning to slide eight, I'll review the various statement presentation changes from IFRS.

The income statement expenses are presented by nature under IFRS, which combine plant direct and indirect administration costs that were previously shown separately. Previously, we reported the Non-IFRS measure of Operating Margin, which has been replaced by EBITDA due to the requirement to reconcile Non-IFRS financial measures to the financial statements.

Operating Margin by plant category is comparable to EBITDA by plant category in the MD&A, as the differences between the two measures are presented as separate line items including the addition of a Corporate EBITDA category. Indirect administration costs of $2 million per quarter are now included in Capital Power Income L.P. EBITDA, which was previously excluded in Operating Margin.

Finally, the statement of cash flows includes interest and taxes paid under Cash flows from operating activities, the Non-IFRS measure of Funds from operations adjusts for the working capital impact of these cash payments.

Turning to slide nine, I'll review the outlook for Capital Power's 2011 capital expenditures.

We expect to invest $90 million to sustaining capex and $290 million for growth capex. These estimates are based on the following expectations. Approximately $20 million to $30 million in additional costs for Capital Power's share of Keephills 3 project based on revised commercial operations date in the third quarter. Plant maintenance capex is estimated to be approximately $16 million higher due to the impact of IFRS, whereby costs for major maintenance are capitalized rather than expensed. Approximately $7 million in maintenance capex is expected during the remainder of 2011 for the three New England plants acquired at the end of April. And finally, a change to the schedule for land held transfers at Port Dover and Nanticoke wind project results in $44 million of planned expenditures shifting from 2011 to 2012. This refinement to the project schedule does not impact the planned completion date of the fourth quarter of 2012 or the total project cost of $340 million.

Starting on slide ten, I'll wrap up the financial review with some updates on our 2011 financial outlook.

The New England plant acquisitions are expected to contribute about $34 million to $38 million in earnings after depreciation expense and before financing and income tax expenses in 2011.

Because our March common equity issue proceeded the April closing of these acquisitions, the equity issuance was slightly dilutive to first quarter earnings. We continue to expect the acquisitions to be accretive going forward.

The estimated useful lives of our coal plants, which include Genesee and Keephills 3, have been extended from 35 to 45 years. As a result, we expect a $14 million reduction in depreciation expense in 2011 compared to previous estimates.

Meanwhile the revised Keephills 3 commissioning schedule is expected to have a slightly positive impact on 2011 net income and slightly negative impact on 2011 cash flow from operating activities.

On the financing front, our 2011 financing costs will now include interest on the $300 million medium term note that was issued in April of this year.

Turning to slide eleven, I'll conclude the 2011 financial outlook with a sensitivity impact based on Alberta power prices.

Our previous guidance for 2011 normalized earnings per share was about $1.20, was based on average Alberta power price of $50/MWh and calculated under Canadian GAAP. If the average Alberta spot prices for the balance of 2011 settle on average in the low-$60/MWh range, we would expect full year 2011 normalized earnings per share at our IFRS to rise to approximately $1.40.

Although Alberta power prices had an unfavourable impact on Capital Power's Alberta portfolio position in Q1, higher power prices for the remainder of the year are expected to result in full year earnings that exceeded previous guidance and internal plans. At the end of March, our Alberta portfolio was approximately 64% hedged for the balance of 2011 at an average hedge price in the low-$60/MWh. For 2012, we are approximately 35% hedged at an average hedge price in the mid-$60/MWh. And for 2013, we are approximately 17% hedged at an average hedge price in the mid-$60/MWh range.

Turning to slide twelve, I'll wrap up by identifying the various items that we have used to transition our 2011 guidance for normalized EPS of a $1.20 at a Canadian GAAP to our revised $1.40 normalized EPS under IFRS.

Generally speaking it's not our practice to provide quarterly quantitative guidance updates to our earnings forecast however given the number of moving items in this quarter, we believe that it's prudent to do so.

The items include a $0.22 increase in normalized EPS from a change in Alberta power price assumption from $50/MWh to the low-$60/MWh range, a $0.12 increase due to the depreciation expense accounting impact from the change in useful lives of our coal fired power plants, and a $0.03 increase due to eight months of expected earnings from the recently acquired New England facilities.

These increases were partially offset by first quarter results which were $0.11 below our expectations based on power prices in the quarter, a $0.04 reduction in earnings due to the transition from Canadian GAAP to IFRS, and a $0.02 reduction from a variety of smaller items.

I'll now turn the call back to Brian.

BRIAN VAASJO:
Thanks Stuart. I'll conclude our presentation by providing you with status update on our 2011 corporate priorities.

For our operational targets, we targeted 94% plant availability for Capital Power's facilities, which included one scheduled maintenance outage for the Genesee facility. We are now expecting 91% plant availability, the results of the outage at Clover Bar that I referenced earlier.

The revised maintenance capital target under IFRS is $56 million. We expect to exceed the target by about $7 million, which is required for the three New England facilities that we just acquired.

On our development and construction targets, we set a target of at least $1.5 billion in capital committed to acquisitions and developments that are in line with our target rates of return. We're almost halfway to that target following our investment of $670 million in the New England region.

As discussed earlier, we now expect Keephills 3 to enter commercial operation in the third quarter, and for capital costs to be about 2-3% higher than target. The change in operation date is expected to be slightly positive to income and slightly negative to cash from operations.

The development of our two wind projects, Quality Wind and Port Dover and Nanticoke remains on track and on budget with commercial operations for both projects expected in 2012.

Turning to slide fourteen, we now expect to end the year ahead of plan. As Stuart discussed earlier, we are expecting normalized earnings as reported under IFRS to rise to $1.40 per share, compared to our original target of $1.20 under Canadian GAAP. The revised expectation is based on Alberta power prices settling in the low-$60/MWh range for the remainder of 2011, versus the $50/MWh power price that our $1.20 guidance were based on, and reflects the other impacts we discussed on slide twelve.

Funds from operations and cash flow per share are on track to be modestly higher than 2010. And finally, we also expect a modest improvement on the dividend coverage ratio compared to 2010.

I'll now turn the call back to Randy.

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

QUESTION AND ANSWER SESSION:

OPERATOR:
Thank you. I'd just like to remind everyone to ask a question, please press "01". To withdraw your question, press the "#" sign.

Our first question is from Juan Plessis from Canaccord Genuity. Please go ahead.

JUAN PLESSIS:
Thank you. You extended the depreciable life of K3 and Genesee. I'm just wondering if you could talk about the reasons for that and whether you foresee any changes to depreciable lives for any of the other assets.

STUART LEE:
Thanks Juan. It's Stuart. So we extended the life based on a couple of different factors. One is a belief, and certainly based on our maintenance practices, that those facilities absolutely will meet that expected life of 45-years. And if you look across industry, you certainly see a lot of coal plants that are reaching 50+ years in life and then again based on our maintenance practice, believe absolutely our plans can reach that life expectancy as well. Obviously that's going to be limited by the capital stock turnover legislation that's been proposed by the Canadian Federal government. And so believe that 45-years would be the maximum life under that proposed legislation. And then as well, if you look across our peer group, a lot of the peers are using that type of life in the 45-year range for these type of facilities, so I thought it was appropriate to basically get on to a level playing field with respect to depreciation lives for the coal assets.

And the second part of your question regarding any other changes in expectations around useful lives, no, we wouldn't expect any other changes. Certainly as we went through the IFRS project, we did look at componentization on specific facilities and the major components in those and there were no major changes coming out of that other than maybe a slightly more detailed view at the component level for each of our facilities.

JUAN PLESSIS:
Okay, thank you for that. And under IFRS, you're capitalizing the schedule maintenance costs. You mentioned after the G1 outage that these costs will be depreciated over two years. Is two years the number we should use for all future capitalized maintenance costs?

STUART LEE:
For our coal facilities, based on the timing of our maintenance cycle, that's absolutely correct. And then for gas facilities, it varies depending on the type of component and depending on the schedule of those facilities, which typically if you're looking at major maintenance can be as long as five years on some of the natural gas facilities.

JUAN PLESSIS:
Okay, five years. Great. And, the last question, you mentioned in your MD&A you recorded some higher professional fees due to the New England plant acquisitions. Can you quantify this amount and do you expect some of these fees will reoccur in Q2?

STUART LEE:
So, there's about $2 million of additional professional fees associated with that. And really, it's driven by BD activity and so it's hard to predict on a quarter-to-quarter basis, Juan, what we might expect on professional fees, because it's really driven by the opportunities and the BD activity.

JUAN PLESSIS:
Okay, thank you very much.

OPERATOR:
Okay, our next question is from Andrew Kuske from Credit Suisse. Please go ahead.

ANDREW KUSKE:
Thank you. Good morning. I guess just a question from slide twelve in your presentation and specifically the $0.11 negative variance from your expectations versus actual. Do you have a breakdown as to the composition of that? Was it really in the energy trading book?

STUART LEE:
Andrew, yeah. Primarily that was coming out of the energy trading side.

ANDREW KUSKE:
Okay, and then, I guess, just further while we are on that page, the change in your power price assumption from your previous guidance of $50/MWh to the low-60's, is that just a function of really taking a look at the market today with the Sundance 1 & 2 issues and then also Keephills timeline being pushed back a little bit towards the latter portion of the year.

STUART LEE:
It is and it's very consistent with our internal view where forwards are settling out for the balance of 2011.

ANDREW KUSKE:
And the sensitivity remains roughly the same that if we saw, say on average, $80 power pricing for the rest of the year, the math would just be very simple as you proposed in the past.

STUART LEE:
Correct. Again, it really depends on a long positioning and how peaky that is, and how much volatility is in those prices particularly given the fact that we have peaking facilities. But as a rough measure, with the guidance we provided in the past, I think it's still appropriate.

ANDREW KUSKE:
Okay. And then if I may, just a bigger, broader question. When you think about your acquisitions that you've done in the past and things that you could do in the future and the growth aspirations that your overall company has, what do you see as being the biggest constraint on your growth from an acquisition standpoint? Clearly there's a capital issue but from a staffing standpoint, how big do you think you can be before you really have to revisit staffing or really changing your corporate structure?

BRIAN VAASJO:
Brian Vaasjo here. So, just starting from your last question and working to constraints. In terms of re-addressing our overall corporate structure, we actually believe we're well positioned to experience very substantial growth without changing our overall corporate structure. In most things we are doing, we're contemplating a much larger size from an overall structural standpoint. In terms of what constraints we might have, certainly timing plays a very important part of the development of these opportunities. So certainly on the acquisition side, we do have definitely a level of integration that we can execute internally let's say on a quarter-to-quarter basis. The reason three acquisitions if it weren't for existing management contracts on those facilities by capable operators, we certainly wouldn't have been able to have done three in the quarter. That provided us some flexibility to bring elements of those facilities into Capital Power over time. So, a lot of it is dependent on the particular opportunity, but on the acquisition side we see some continued capacity in the organization to acquire assets through the balance of the year.

On the development side, we do have a constraint as we grow in terms of development activities associated with basically how much construction work in progress can you carry on the balance sheet at a particular point in time. We continue to see some capacity in our balance sheet over the next couple of years but it is starting to get a little bit tighter. So those in the near term would be our constraints to growth.

ANDREW KUSKE:
Okay that's very helpful. Thank you very much.

OPERATOR:
Our next question is from Robert Kwan from RBC Capital. Please go ahead.

ROBERT KWAN:
All right, thank you. I'm just wondering if you can comment on where the trading book is right now.

STUART LEE:
In what respect, Robert? I think the indication we've given you is the fact that about 64% of the remaining position is hedged for 2011 at low-$60/MWh pricing and the balance would be open for 2011.

ROBERT KWAN:
Okay, just in terms – does that 64% now include where the net, where you maybe haven't put a direct [inaudible] against the physical?

STUART LEE:
That would include both financial and physical position. And it basically just reflects our base load position so for instance we wouldn't include our peaking capacity in that hedging portfolio.

ROBERT KWAN:
Okay and do you make an allowance for what might happen on RRT within that as well?

STUART LEE:
We basically forecast that expected levels of RRT consumption and so there can be obviously deviations in that depending on particularly driven by weather. So you can have plus or minus demands from those expectations depending on, particular as you go on now in the summer months if they were to be significantly warmer than long-term historical projections, you can see additional demand and we could end up supplying additional generation capacity into that. Or vice versa; if it's cooler, we might have additional supply that we are putting into the market.

ROBERT KWAN:
Okay, so just so I'm totally clear on this, if you actually kind of gave us a number going into Q1, that would have been a number that would have been bigger than 100%?

STUART LEE:
Going into the quarter, I think we would have effectively been largely hedged and obviously positions would have been taken within the quarter that could have put us either long or short within the particular periods, and in particular periods we would have had over 100% or in slightly short position. And that obviously would have been exasperated, Robert, by additional demands coming out of particularly out of the RRT when the weather got cold and the fact that we didn't have as much support on the peaking facilities because Clover Bar 3 was out.

ROBERT KWAN:
Right, okay. Last question also about just your broad view on the trading business; did the experience in Q1/11, has that changed your view not necessarily as to whether you want to be in the activity, but to the actual positions and the size of the positions you might be taking, even though they might be within VAR, where you had a quarter that would have been really, really good for your physical but the portfolio optimization activities put it offside?

STUART LEE:
Well, if you look back at our historical performance out of our portfolio optimization, it's consistently delivered value to the organization. Isolating one particular quarter you're going to see some variability plus and minus, but over the long term that sort of activities has delivered good value to the organization and is well controlled within risk limits of where we expect.

As far as changes, it's not really reflective of performance in any particular quarter. Our views on how we might manage our overall trading operation. The one thing that has changed, obviously, is with a couple of the major coal units coming out in the province in Q1. It has certainly changed the dynamics of supply and demand, and we're going to see a lot more volatility going forward. And as a result, it changes the way you view the market going forward and you position yourself for that increased volatility. So I absolutely think we'll reflect in the way we manage the positions based on what's happened in the province.

ROBERT KWAN:
Okay that's great. Thanks Stuart.

OPERATOR:
Our next question is from Matthew Akman from Macquarie Capital Markets. Please go ahead.

MATTHEW AKMAN:
Thanks guys. For Stuart, this first question's for you. I just wanted to clarify whether the delay in Keephills 3 coming online is accretive. Is that what you meant in the commentary?

STUART LEE:
Yeah, I mean it's positive and it's pretty modest, Matthew. It doesn't have a big impact one way or another but it's modestly positive to earnings in the fact that you continue to capitalize interest so it's continued to have IDC and you don't have depreciation expense which is modestly higher than the EBITDA that was forecasted for the facility. But it really doesn't move the needle one way or another very far.

MATTHEW AKMAN:
At which Alberta power price?

STUART LEE:
The guidance would have been based on around $60.

MATTHEW AKMAN:
And at the new depreciation rates?

STUART LEE:
Correct, which is again fairly neutral based on those changes.

MATTHEW AKMAN:
Okay. Thanks for that. Separately I guess is a bigger picture question. Obviously the uptick in recent Alberta power prices has been meaningfully positive to your guidance even though you were two-thirds hedged roughly. So there's still lots of exposure to the Alberta power price in the company over all. The acquisitions you've announced recently would obviously tend to reduce that exposure. I'm just wondering if that's intentional or whether that's sort of an aside to your strategy. Is it your explicit intention, I guess this is for Brian, to reduce the exposure to the Alberta power market or do you like that exposure? Because I think shareholders are sort of unsure right now about which direction you're taking it.

BRIAN VAASJO:
So, Matthew, when we went out with the IPO, we indicated that there was a number of other merchant markets that we were interested in to create some very significant growth opportunities. And the Alberta market does have some limitations in terms of the degree to which you can have capacity in the market. So when you start putting that together and you're looking at having some reasonable level of growth in facilities, it pretty much pushes you outside of the province of Alberta. And particularly before Sundance 1 and 2 went out and many believe that they may be out permanently which provides opportunities for new facilities in the province that hadn't been there previously. When you put all those factors together from a practical standpoint, it means that if you are going to develop significant merchant assets, you pretty much have to be outside of the province of Alberta.

Now in terms of diversification and diversifying away from the Alberta market, we continue to be extremely bullish on the market and we see the diversification in our portfolio so to speak as between merchant and contracted. We believe that that provides sufficient diversity to basically weather any sorts of financial storms or commodity market upsets.

MATTHEW AKMAN:
Okay, so it sounds like you are comfortable with the Alberta market exposure but you would really like to reduce the earning volatility over time of the company.

BRIAN VAASJO:
Well, moving into another market certainly has the impact of reducing the overall volatility of results statistically.

MATTHEW AKMAN:
Okay. Thanks a lot guys. Those are my questions.

OPERATOR:
Okay, our next question is from Michael McGowan from BMO Capital Markets. Please go ahead.

MICHAEL MCGOWAN:
Hello, good morning. I just have a procedural question on the strategic review that's ongoing with Capital Power Income L.P. Back in October when you initiated the review you mentioned that you wouldn't - you are not a buyer of the fund - or you wouldn't look to break up the fund. Now, as the review is progressed through six months, have you changed your outlook regarding those two potential outcomes at all?

BRIAN VAASJO:
So our outlook hasn't changed, Michael, and obviously as I think CPILP has indicated that process is still underway and they've indicated that they would expect to have something to announce later in the quarter.

MICHAEL MCGOWAN:
Okay, when you say later in the quarter, I mean, is that closer to June 30th or midway through?

BRIAN VAASJO:
At this point you're talking about a 2 month period, so I don't know that there's a specific

timeline within those two months, but we would expect that it would be in Q2.

MICHAEL MCGOWAN:
Okay, thank you.

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

LINDA EZERGAILIS:
Thank you. I'm wondering if you could provide us with an update on your collective bargaining with the two unions whose agreements expire at the end of December.

BRIAN VAASJO:
We've commenced discussions certainly with the unions and they continue to be very positive. We have excellent union relations and don't anticipate any issues whatsoever, Linda.

LINDA EZERGAILIS:
Okay, so I realize there haven't been any labour disruptions or work stoppages since 1978, would this level of ongoing discussions be typical of the past as well?

BRIAN VAASJO:
Oh yes.

LINDA EZERGAILIS:
Okay, that's helpful. Maybe a follow on a bigger picture question; are there any other Exelon or Constellation plants that might of interest to you if they get shed as part of that merger process?

BRIAN VAASJO:
Linda, we haven't had a real close look at those facilities in terms of what may in that kind of transaction be shaken loose. Certainly they have a lot of excellent core assets that would certainly be of interest, but certainly we doubt would become available. So there are some that would be of interest, but again don't expect that those would necessarily come onto the market. We generally don't see the impact of that transaction to result in assets that would be available to us.

LINDA EZERGAILIS:
Okay, so just stepping back and looking at your target of deploying or committing $1.5 billion of new capital this year, you mentioned some constraints on the development side. Would we expect that then the bulk of that new commitment of the balance of the year to come from acquisitions or how might we think about where the opportunities lie for you?

BRIAN VAASJO:
Just to be clear, in response to the question, it wasn't responsive to where we would see necessarily those constraints coming into play within the $1.5 billion. Those were more just broadly what we see as the first constraints coming. So some of those constraints may be a constraint at $2.5 billion, not necessarily at $1.5 billion. So don't really see there being a constraint on the balance sheet nor, assuming a normal type acquisition associated with the $1.5 billion. It could all come, the balance of it could all come on construction or it could all come on acquisition.

LINDA EZERGAILIS:
Okay, that's helpful. And maybe just a final question on K3, I guess since the project was first announced in early 2007, TransAlta's disclosure at that time suggests the cost increases have been just over 20% and a half a year total delay. How would that benchmark compare to the industry experience over this time, because could some of it be attributed to just being in Alberta and competing a little bit with some of the oilsands labour or how might you think of that in the big picture?

BRIAN VAASJO:
So certainly the initial timing and cost issues a significant portion of them are absolutely attributable to being in Alberta; lower productivity because of constraints around labour, so that is absolutely the case.

The issue that we are facing now around commissioning or that we had been facing around commissioning, that typically is one of the most uncertain elements in the commissioning process and certainly you would extend it out much longer than we had anticipated but it certainly isn't reflective of the quality of the facility or finding quote-unquote problem with the facility. It's more process oriented as opposed to a reflection on the quality of the facility. And again, certainly an uncertain element in any commissioning process. So, you would characterize the time frame as being certainly on the higher end of the range of lengths of time of steam blow or cleaning the boiler of a plant. But, again, we are applying with Hitachi very high standards to that boiler.

LINDA EZERGAILIS:
Great, that's helpful. Thank you.

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

SAM KANES:
Good morning. This has to do a little bit with your investment strategy and non-operating assets. I've been led to believe indirectly that you have or had an investment in Power Span, which is an MEA related carbon capture storage technology. You're involved, of course, with the K3 since you own it with TransAlta with what appears to have been chosen Alstom Chilled Ammonia, which has had a checkered record so far with AEP. Just wondering in general on your investment strategy and things that would be technology related to your business and specifically your view of those technologies and carbon tax in general seeing the NDP have had a little more limelight lately in terms of the polls at least.

BRIAN VAASJO:
Thanks for the questions, Sam. Looking at some of our historical investments, or EPCOR's historical investments, as it relates to things like carbon capture and storage, that investment was actually under a broader umbrella of where EPCOR had been investing in a number of different, technology plays on a portfolio basis. So, there were a handful of other investments made at around the same point in time. And it was viewed as a window on technology potentially providing competitive advantages and so on. And certainly, those investments did deliver expectations were reached as it related to EPCOR. But we are not making those types of investments as Capital Power and actually it was discontinued in EPCOR as well. So we don't directly invest in technologies but much like Keephills 3, much like Genesee 3, the monitoring of flue gas technology that we've invested in, we tend to be a nearer term adopter of new technology as opposed to directly investing in that technology. And we would continue to do that. As an organization believe that technology generally has some great first mover advantages and certainly has some other positive attributes including reducing one's environmental footprint.

SAM KANES:
Thanks Brian.

OPERATOR:
Our final question is from Michael Lapides from Goldman Sachs. Please go ahead.

MICHEAL LAPIDES:
Hey guys. Actually just a couple of basic questions. First of all when you look at the Alberta power market and other companies or other entities that are adding supply, what do you see as kind of the biggest units that are likely coming online outside of K3 over the next couple of years?

BRIAN VAASJO:
So there's two significant facilities have been identified as being in development. One is the Shepard facility in the Calgary area which is a800 MW plant. And also TransAlta has announced it's starting a development work on Sundance 7. That's in the order of magnitude of 800 MW as well. So those are two significant developments that have been announced that are underway.

STUART LEE:
And Michael, those would be 2015 and out.

MICHEAL LAPIDES:
Got it. And how should we think about . . . What's your kind of feedback on the recent FERC order regarding the New England capacity market auction structure and whether you think this is a positive or a negative for your assets there.

BRIAN VAASJO:
The general view in relation to the capacity market is that, in inclusive of the recent announcement, is generally it's an increasingly positive market as was the announcement from our asset standpoint. And we expect that there will be actually some fairly significant step changes in capacity prices over the next number of years. And that outlook is unchanged.

MICHEAL LAPIDES:
Got it, okay. Thank you guys, much appreciated.

OPERATOR:
There are no further questions in the question queue.

RANDY MAH:
Okay, if there are no further questions, we'll conclude our conference call. Thanks for your interest in Capital Power Corporation and have a good day.

OPERATOR:
Ladies and gentlemen, this concludes Capital Power Corporation's Conference Call to discuss the first quarter 2011 results. Thank you for your participation and have a nice day.

[CONFERENCE CALL CONCLUDED]