OPERATOR:
Welcome to the Capital Power Corporation's conference call to discuss the second 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 conference call is being recorded on Thursday, July 28, 2011 at 11:00 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 to review Capital Power's second quarter results that were released yesterday. The second quarter results and the presentation slides for this conference call are posted on our website at capitalpower.com. This conference call is also being webcasted from our website.

Joining me on the call is Brian Vaasjo, President and CEO and Stuart Lee, Senior Vice President and CFO. 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 2. Certain information in this presentation, and in responses to questions, contains forward-looking information. Actual results could differ materially from the conclusions, forecast or projections to 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, forecast 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 to 18 of this presentation and in the Company's second quarter 2011 Management's Discussion and Analysis, dated July 27, 2011, which has been filed on SEDAR at sedar.com. I will now turn the call over to Brian for his remarks starting on Slide #3.

BRIAN VAASJO:
Thanks Randy and good afternoon. I'll start off with a review of our corporate updates. In the second quarter of 2011, Capital Power reported normalized earnings for share of $0.07 cents. The results included a $15 million dollar impact related to a loss on the settlement of forward bond contracts as well as a pension obligation valuation adjustment.

Capital Power reported higher cash flow generation with funds from operations, excluding CPILP, of $65 million dollars, up 76% from the $37 million in the second quarter of 2010. Stuart will provide more details on the financial results in his comments.

On June 20th, Capital Power Income L.P. and Atlantic Power announced an agreement whereby all the outstanding limited partnership units of Capital Power Income L.P. would be acquired by Atlantic Power, including Capital Power's 29% ownership interest for approximately $321 million dollars.

Consideration will include approximately $200 million dollars in cash and/or Atlantic Power shares and, as part of the transaction, Capital Power will acquire the two North Carolina plants - Roxboro and Southport - which are valued at $121 million dollars. As part of the transaction, Capital Power's management and operations contracts with CPILP will be terminated.

Moving to Slide 4. In the second quarter, we announced that Capital Power acquired the remaining 50% of the 150-megawatt Halkirk Wind project from Greengate Power Corporation, bringing our ownership to 100%. The Halkirk Wind project is located in Alberta, includes a 20-year PPA for the sale of renewable energy credits with Pacific Gas and Electric. The total project cost is expected to be $357 million dollars, which includes the $33 million dollar acquisition cost. The Halkirk Wind facility is expected to start commercial operations in the latter half of 2012.

Last month we announced that we no longer plan to pursue growth opportunities in biomass and hydro technologies. Accordingly, we plan to divest of our interest in 3 hydro facilities in Alberta and BC by the end of the year.

Construction of Keephills 3 continues as scheduled with commercial operations expected to begin in this current quarter. The progress towards commercial operations was evident in the second quarter with the output of 50 gigawatt hours of pre-commissioning power.

Turning to Slide 5, I'll review the operating performance of our plants in the second quarter of 2011. In terms of plant availability, excluding Capital Power Income L.P.,
our facilities delivered 91% availability for the quarter, which exceeds the 83% performance in the second quarter of 2010. The high availability level was achieved despite the outage at Clover Bar 3 for most of the second quarter.

As you can see, a number of our plants have excellent availability, including: Genesee 2 and 3, and the most recent acquisitions, Island Generation in BC and the three Northeast US plants: Rumford, Tiverton and Bridgeport where all these plants had availability of 97% or higher. At Genesee 1, availability was 81% in the quarter due to a 21-day scheduled maintenance outage that ended on April 18th. Availability at Clover Bar centre was 65% for the quarter, due to a 5-month outage at Unit 3. The Unit 3 repair was under warranty and was returned to service on June 17th. Plant availability at the Joffre facility was 78% due to both scheduled and unscheduled maintenance. Overall, for the first half of the year, plant availability was 92%. I'll now turn the call over to Stuart.

STUART LEE:
Thanks Brian. I'll start off with a financial summary of the second quarter results, starting on Slide 6.

Capital Power generated higher FFO, excluding CPILP, of $65 million dollars in the second quarter, compared to $37 million dollars a year ago. FFO benefited from the incremental contributions from the Island Generation and New England facilities that were acquired in Q4 2010 and Q2 2011, respectively. There are also lower availability penalty payments of $5 million dollars for the Genesee 1 scheduled outage for this quarter, compared to $12 million dollars for the Genesee 2 outage in the second quarter of 2011, due to lower power pool prices.

Normalized EPS of $0.07 cents in the second quarter was below our expectations due to a $10 million dollar realized loss in the settlement of forward bond contracts used to economically hedge exposure to interest risk on the anticipated debt issues.

While these contracts settled at a loss, future interest payments will be incurred at a lower rate than the rate that was locked in by the hedge.

In addition, a pension obligation valuation adjustment of $5 million dollars. This is an unusually high adjustment and is a result of an actuary valuation of the Company's supplementary pension obligation, which incorporated updates to the estimates used at the time of the spin-off from EPCCOR. Going forward, we do not expect material adjustments to future valuations.

Finally, there was lower realized margins from Alberta merchant trading portfolio due to a lower average Alberta spot price in Q2 2011, compared to Q2 2010. This was amplified by forced outages, including outages in all units of the third-party owned facility where we are the PPA counterparty.

Moving to Slide 7, I'll discuss the accounting related impacts from the Capital Power Income L.P. transaction with Atlantic Power.

The announcement of the CPILP transaction resulted in the assets being classified as 'held for sale' and required the testing for impairment with the consideration in the agreement representing fair value. An impairment of $43 million dollars was recognized in the current quarter.

The impairment is related to the Company's management contracts with CPILP, which are being terminated for $10 million dollars, that was below the current carrying amount. Most of this loss is attributable to CPC shareholders as the contracts are held outside of CPLP. Pending closing of the transaction in Q4 2011 we expect an after-tax gain of approximately $54 million dollars that will be recorded by CPC.

Turning to Slide 8, I'll discuss our Alberta commercial plants and portfolio optimization segment. In the second quarter, Capital Power's realized price for the Alberta portfolio was $56 dollars per megawatt hour, slightly higher than the average spot price of $52 dollars per megawatt hour. We experienced volatile Alberta power prices in the latter part of June, with significant spikes from both unplanned and forced outages, including outages at Sundance Units 5 and 6, where Capital Power holds the PPA.

Capital Power's hedged position in Alberta portfolio, as of June 30, 2011, are as follows: For the last half of 2011, approximately 80% is hedged at prices in the low-$60 dollars per megawatt hour, slightly higher than the average spot price of $52 dollars per megawatt hour. We experienced volatile Alberta power prices in the latter part of June, with significant spikes from both unplanned and forced outages, including outages at Sundance Units 5 and 6, where Capital Power holds the PPA.

I'll discuss in a moment our financial outlook for the remainder of 2011, assuming Alberta power prices settle at the current forward prices in the low-$70 dollars per megawatt hour in the last half of the year.

On Slide 9, this slide summarizes our year-over-year financial performance in the second quarter 2011, compared to 2010. Revenues and other income, before fair value changes, were $479 million dollars in the
second quarter of 2011, up 24% from the $387 million dollars reported in Q2 2010.

EBITDA, also before fair value changes, was $63 million dollars, down 31% in the same period a year ago. We reported normalized EPS of $0.07 cents, which was slightly higher than the $0.05 cents recorded in the second quarter 2010.

Finally, Capital Power generated healthy operating cash flows in the second quarter. Funds from operations, excluding the non-controlling interest in CPILP, was $65 million dollars, up 76% compared to $37 million dollars reported in the second quarter of 2010.

Turning to Slide 10. Capital Power continues to have good access to capital markets. In the second quarter, we completed successful debt and equity offerings, consisting of a $295 million dollar US private placement of senior notes and $231 million dollars of common shares. Following the recent equity offering, EPCOR’s ownership interest in Capital Power L.P., was reduced to 49%, compared to 72% at the time of the IPO. Overall, in the first half of 2011, Capital Power has raised approximately $1.1 billion dollars, roughly half debt and half equity to fund our growth plan.

Both DBRS and S&P have recently reaffirmed a BBB credit rating for Capital Power LP in late June. S&P revised the outlook from ‘stable’ to ‘negative’ based on their review that the growth plan would weaken CPLP’s satisfactory businesses profile over time with the execution requires supportive capital markets conditions. We remain committed to maintaining a BBB rating and we are taking actions to address S&P’s concerns.

Turning to Slide 11, I'll provide an update on our 2011 financial outlook. If Alberta power prices for the balance of 2011 settle on average in the range of their current forward prices of low-$70 dollars per megawatt hour, we expect normalized EPS for 2011 to be in line with guidance provided in Q1 2011 MD&A, excluding the impact of the loss on settlement of the bond forward contracts and pension adjustments, which were recorded in Q2 2011.

The second quarter earnings from the recently acquired New England facilities were generally in line with expectations and 2011’s earnings guidance for these facilities remain substantially unchanged, other than we expect negative $2 million dollars related to the Connecticut Energy taxes introduced last month.

Financing costs in 2011 will include interest on the $300 million dollar medium-term-note issued in April and the US $295 million dollar senior notes issued in June. As mentioned earlier, we expect to acquire the Southport and Roxboro facilities from Capital Power Income L.P. in the fourth quarter. These facilities have recently signed 10-year PPAs that will generate expected average annual EBITDA of $15 million dollars US during the 10-year term, with higher earnings expected in the earlier years. Capitalized maintenance costs for these facilities are expected to be $3 million dollars US per year over the 10-year PPA term. I will now turn the call back to Brian.

BRIAN VAASJO:
Thanks Stuart. I'll conclude with our presentation by providing you with an update on our 2011 corporate priorities, starting on Slide 12.

For our operational targets, we targeted 94% availability for Capital Power’s facilities, which included one scheduled maintenance outage for the Genesee facility. We are now expecting 91% plant availability, due to the outage of Clover Bar Unit 3, which I referred to earlier. Revised maintenance capital target under IFRS is $56 million dollars. We expect to exceed the target by about $15 million dollars, which includes $7 million for the three New England facilities that we acquired earlier this year and $8 million for land purchases at the Genesee mine.

On our development and construction targets, we set a target of at least $1.5 billion in capital committed to acquisitions and development that are in line with our target rates of return. We are getting close to that target following our investments in the New England region, Halkirk Wind project and two North Carolina facilities from CPILP.

Keephills 3 is on track for commercial operation in the third quarter with capital costs approximately 2 to 3% higher than target.

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

Turning to Slide 13, with a review of our financial priorities. As Stuart mentioned, if Alberta, lower prices for the balance of 2011 settle on average in the low-$70 megawatt range, expect normalized EPS for 2011 to be in line with our guidance provided in the Q1 2011 MD&A, excluding the impact of the loss of the settlement of the bond forward contracts and the pension adjustment, which were recorded in Q2 2011.

Funds from operations and cash flow from shares are on track to be modestly higher than 2010. And finally, we
expect a modest improvement on the dividend coverage ratio compared to 2010. I'll now turn the call back over to Randy.

RANDY MAH:
Thank you Brian. Donovan, we're now ready to start the question and answer period.

QUESTION AND ANSWER PERIOD

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

OPERATOR:
So, our first question is from Linda Ezergailis from TD Securities. Please go ahead.

LINDA EZERGAILIS:
Thank you. I'm wondering if you could perhaps provide us with some more details around your trading results? And looking forward, if power prices go up, even with short-term spikes, can we assume that that would generally benefit your portfolio now that your RRT contract with EPCOR has expired?

STUART LEE:
Sure, thanks Linda. So, if we look at the overall results from our Alberta commercial and portfolio optimization area, we would have expected EBITDA in the range of about $50 million dollars for the quarter; it came in around $44. And in fact, through to about the last 10 days of June, we were actually tracking right at budget and then in the last 10 days, as you note, power prices spiked, in part due to various plant outages in the province and tielines with BC coming off.

Unfortunately, two of the units that were off, were Sundance Units 5 and 6, and we had effectively a flat position coming into the back end of the month and, with those units coming off and power prices spiking, unfortunately we ended up in a short position and ended up replacing that power at pretty expensive power at the time. And so that resulted in the shortfall for the quarter.

LINDA EZERGAILIS:
Ok. And then, looking forward for the second half of 2011, that dynamic won't reoccur now with your RRT contract expired and not renewed, or did the RRT contract have anything to do with the last 10 days in June?

STUART LEE:
It didn't have a lot to do with the last 10 days in June. It did have a lot to do with first quarter results, but not necessarily the last part of June. But we would expect, I think we are very well positioned for the back half of the year as we look at our overall portfolio and believe that we would expect to see good results, particularly if we see volatility in prices through the back end of the year.

LINDA EZERGAILIS:
Ok, thank you.

OPERATOR:
Our next question is from Juan Plessis from Canacord Genuity. Please go ahead.

JUAN PLESSIS:
Thank you. Your hedges for 2012 are still at 35%. Can you update us on your hedging target and strategy going into 2012?

STUART LEE:
As we get close to 2012, expect that we'll look to layer in some additional hedges. Our view continues to be that 2012 forward prices doesn't reflect our fundamental view of where the market is likely to move, given the increasing demand in the province. And so, if forwards remain at the current level, expect that we'll be at the lower end of what we'd normally hedge. But we do expect that we'll see upward pressures on 2012 as we get closer and closer to that term.

JUAN PLESSIS:
Ok, thanks for that. And, with regard to the Connecticut Energy tax that was introduced last month, how do we look at that $2 million dollars? Is that for a full year, or just for the month or what?

STUART LEE:
$2 million dollars would be for the balance of 2011 so, that tax becomes effective July 1. It's intended to be in place for two years, is our understanding of the way the legislation currently reads. And on an annualized basis, moving into 2012, we would expect the impacts on an annual basis to be around $5 million dollars.

JUAN PLESSIS:
$5 million, ok. Great. Now, you've had a pretty busy first half of the year with respect to your growth initiatives.
Can you update us on the market for power plant acquisitions and what you see for the second half of the year, with respect to growth?

BRIAN VAASJO:
Brian Vaasjo here. So, in terms of our outlook for activity in the market in the last half of the year we see that there continues to be opportunities out there to acquire assets, particularly in the US market; the Canadian market's a little bit quieter. In terms of our own positioning, vis-à-vis those opportunities we expect that we pretty much have the capacity for an additional modest-sized acquisition during the course of the balance of the year and we would expect to transact on that basis. So, certainly wouldn't see anything close to the magnitude of activity that you've seen in the first half of the year in the latter half.

JUAN PLESSIS:
Ok, thanks very much.

OPERATOR:
Our next question is from Andrew Kuske. Please go ahead.

ANDREW KUSKE:
Thank you. Good afternoon. Just in relation to the three hydro facilities that you're putting up for sale at this point in time. If memory serves me correctly, Taylor - that is 50% owned. I believe TransAlta's is the counter-party on that. Do they have a first right of refusal on that facility?

BRIAN VAASJO:
Yes, they do.

OPERATOR:
Our next question is from Andrew Kuske. Please go ahead.

ANDREW KUSKE:
Ok, they do. And have you designated advisors for the sale of those three assets? Or are you looking as a complete package? Or, with the ROFR on one, that would really be separate than the other two.

BRIAN VAASJO:
Yeah, as yet we haven't advanced the process enough to appoint an advisor or to think about what would be the best approach to sell the assets, either in aggregate or individual.

ANDREW KUSKE:
And, I guess, it's sort of related but distinctly different. When the commentary in the MD&A about the targeted return for contracted assets being changed from 9 to 8% - and I know the language was to be more competitive in the current markets - are you seeing a spread compression or is it just greater competition for assets that are turning off cash flows with a degree of stability around it? What was the real dynamic around that compression?

BRIAN VAASJO:
So, there's two aspects to that question. One is, and just to be clear, certainly the target rate has been moved down modestly and certainly, in part, because we're seeing the market being more competitive. But when we established that return expectation back in 2009, part of the reason for setting it at that level was we felt we would have the opportunity to be successful with the utilization with the 9%, as we have been. So, the movement downward is more to reflect probably a more appropriate target rate for our organization. Having said that, in the market, much as you are suggesting, it is becoming much more competitive. And it's not as much competition among companies or organizations like ours, it's more introduction of other buyers. Certainly there's a greater financial buyer interest in the market. Hedge funds, etc. are now coming back into the market, much like they were 3 and 4 years ago, with the increasing availability of capital to that segment. So that's more what we're seeing is the change in the nature of buyer that's out there as opposed to corporates or organizations similar to ourselves.

ANDREW KUSKE:
So that dynamic should bode relatively well on the divestiture side for the assets that you're now putting on the sales block. And, then just on a broader question on the acquisitions; are you seeing somewhere kind of a competitive dynamic with assets that we could argue are a bit more stressed in nature and trading at a severe discount, on a non-contracted basis, the more merchant side.

BRIAN VAASJO:
So, I think your implicit observation in your question is right, that we aren't seeing the same level of competition on what we refer to as the merchant side or certainly with assets that would necessarily have hair on them, so to speak. But again, that segment is getting more competitive as well, as we speak. Again, more people entering that market. And we're starting to see potentially some of the financial players coming into it.

ANDREW KUSKE:
Ok, that's very helpful. Thank you.

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

ROBERT KWAN:
Ok, thank you. When you look at what happened, in particular when you look at the second quarter around
STUART LEE:
Yeah, obviously the market dynamics have changed a lot over the course of this year, Robert. Couple of different things have moved in that direction. One is, obviously, Sundance 1 and 2 coming out; so some of the supply coming out of the province, and demand continues to move up, probably a little bit more robustly than we would have otherwise forecasted. And a lot of tightening in the market, a lot more volatility through 2011 and it does impact our views on how we position our portfolio. Certainly we continue to digest those changes and reflect them in our strategy going forward.

ROBERT KWAN:
Ok, do you think that 100% hedged, or that level of hedging on the base load commercial is appropriate given how the Alberta market seems to be shaping up right now?

BRIAN VAASJO:
So, with respect to the base load commercial, one of the elements around that continues to be the Clover Bar units are generally sized to be able to cover us in a short position in the event that one unit goes down. So, we do have the ability to effectively be flat and to feel reasonably comfortable with the insurance that provides. Obviously that didn't work out for us in the latter part of the second quarter.

So, the other thing, Robert, I think is you well know we have a very strong analytical base to the management of the portfolio. Certainly, as the market evolves and volatility increases that impacts on the analytical side. And certainly impacts on the minds of the individuals who are watching and working that market on a day-to-day basis. So, it certainly has an impact.

ROBERT KWAN:
Ok. And then, I don't know, this is a somewhat related question but on the Clover Bar 2 delay and how you're looking at that with respect to how the hedges for the back half evolved and what's generally driving the delay? Was it just the lack of operating hours in the second quarter or, just given that that you have some issues at Unit 2 that needs some upgrading?

STUART LEE:
So, you're talking about Unit 2 expected to come off for maintenance?

ROBERT KWAN:
Yeah, I thought it was supposed to be off very shortly but it looks like you pushed it back to the end of the year. Is it more just hours run? Do you feel more comfortable with what's there? Or is it protecting your 80% hedge level, given you saw what happened at the end of Q2?

STUART LEE:
Well, it also reflects the fact that I think originally it was expected to come off in August. And, given where expected supply and demand is going to be for August, it was viewed it was appropriate to move that back. And, based on the way the unit's running in hours, we were comfortable making that decision.

ROBERT KWAN:
Ok, that's great. Thank you very much.

OPERATOR:
Our next question is from Michael McGowan from BMO Capital Markets. Please go ahead.

MICHAEL MCGOWAN:
Hi, good afternoon. Just a quick procedural question. Your EPS guidance, you reaffirmed the $1.40, excluding, the bond forward losses and the pension adjustment. What would the actual number be, including those numbers?

STUART LEE:
Range wise you're looking at somewhere between $1.20 - $1.25.

MICHAEL MCGOWAN:
Ok. And, another procedural question. Looks like your maintenance capex for Genesee mine increased by about $8 million dollars this quarter? Can you talk about what's driving that increase?

STUART LEE:
It's really just the opportunity to buy additional land in the Genesee mining area. And, that opportunity presented itself then we went ahead and executed on that.

MICHAEL MCGOWAN:
Ok, so it's not equipment related or additional costs, or anything like that.

STUART LEE:
Correct.
MICHAEL MCGOWAN:
Ok. Great, those were my questions.

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

MICHAEL LAPIDES:
Hey guys, just looking to the commentary both on the slides and in your filing last night regarding credit rating agencies, the move from stable to negative, financing needs and, really, the language around potential permanent financing needs after using bank lines, etc., to fund some of the growth in the back end of the year. What do you guys think about in terms of in late 2011 or early 2012, either equity capital or some kind of preferred or mandatory - something where you get equity-like credit - to shore up the balance sheet?

STUART LEE:
Well, I think that we proactively took measures in July with the equity issuance that we came out with. And our view on additional common would really be subject to acquisition activity and if there's any acquisition activity through the balance of the year end to 2012.

MICHAEL LAPIDES:
Have the rating agencies responded since you did the equity financing. Meaning, have they revised or revisited their outlooks since then?

STUART LEE:
They haven't and, in fact, our discussions with them they would have included the expected equity issuances that we would have indicated at the time of their reviews that that was our intent.

MICHAEL LAPIDES:
So, I want to make sure. They did the reviews knowing, and they did the move and the outlook knowing that those equity issuances were coming?

STUART LEE:
Correct.

MICHAEL LAPIDES:
So, they had a more, I want to say, slightly more negative view on your balance sheet even though knowing that you were going to issue some equity in the coming months, which you did.

STUART LEE:
Well, I don't know about more negative. I think they would have expected that we would have done that in any case. Which would have been consistent with their views. And we executed that equity transaction in contemplation and with a view that they would have expected and we were expecting to do it.

MICHAEL LAPIDES:
Ok. How should investors think about what's happening with Sundance and what it means in terms of PPA? It's really the plant outages that are more permanent long-term plant outages that are owned by a third-party. You know, what it means both for your PPA but also what it means for the dispatch curve of the stack?

BRIAN VAASJO:
So, I believe you're speaking in respect of Sundance 1 and 2 and can't really speak to investors' views. I would say there is certainly an initial market reaction in terms of forward prices that impacted potentially on investors' views. And that's subsided to a fair degree thus far. Back down to the more fundamental pricing in the market on the forward curve. Which would impact on investors' views of the market on a go-forward basis. In terms of expectations that this kind of event may happen around other facilities. We haven't heard any commentary from that standpoint, that to be concerned about, for example, Sundance 5 and 6, or Genesee 1 and 2 or any of the other facilities that are under PPAs.

MICHAEL LAPIDES:
Ok, but I just want to make sure. From a PPA standpoint, you're not out some of the capacity that you were buying from the third-party? And then, B, do you expect the outages from third-party plants to have a dramatic impact on, kind of, the forward price of power or is there similarly priced capacity that can replace that?

BRIAN VAASJO:
Well, there's new capacity coming into the market that has an impact on likely an upward impact, generally, on pricing in the longer term, but certainly has the impact of reducing prices in the short term. But there doesn't seem to be a market expectation of needing significant additions to capacity to take the place of PPA-related asset outages, no more than history would dictate.

MICHAEL LAPIDES:
Ok, but you, much appreciated.

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

RANDY MAH:
Ok, If there no further questions we'll conclude our conference call. Thank you for joining us today and for your interest in Capital Power Corporation. Have a good day everyone.
OPERATOR:
Ladies and gentlemen, this concludes the Capital Power Corporation's Conference call to discuss the second quarter 2011 results. Thank you for your participation and have a nice day.

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