Capital Power Corporation Conference Call
Second Quarter 2012 Results - July 27, 2012

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PRESENTATION

OPERATOR:
Welcome to Capital Power Corporation's conference call to discuss the second quarter 2012 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 Friday, July 27, 2012 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. The financial results and the presentation slides for this conference call are posted on our website at www.capitalpower.com. 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 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 page 21 of this presentation and in the Company's second quarter 2012 Management's Discussion and Analysis, dated July 26, 2012, which has been filed on SEDAR.

In our presentation we will be referring to various non-GAAP financial measures as noted on slide 3. These measures are not defined financial measures according to GAAP and do not have standardized meanings described by GAAP and, therefore, may not be comparable to similar measures used by other enterprises. Reconciliations of these non-GAAP financial measures, can be found in the second quarter 2012 MD&A. I will now turn the call over to Brian for his remarks starting on slide 4.

BRIAN VAASJO:
Thanks Randy and good morning. Capital Power's second quarter financial performance is typically weaker due to seasonally lower power prices and outage scheduling. In the second quarter of 2012, normalized earnings per share of $0.07 cents was flat year-over-year and partially reflects the unusual seasonal softness. The average Alberta spot price in the second quarter was $40/MWh. Our normalized earnings performance was about $8 million dollars, or approximately $0.06 cents per share below management's expectations, due to an unplanned outage at the Bridgeport facility and higher maintenance and fuel costs at the North Carolina facilities.

This quarter, we also recognized a pre-tax impairment charge of $74 million dollars on our North East US assets based on reduced expected operating margins. The reduction is largely the result of weaker spark spreads in the North East US power market since the April 2011 acquisition of the assets. The impairment charge has no cash flow impact. Under IFRS reporting, we expect impairment charges and reversals for long-term assets with commodity exposures will occur more frequently than in the past. Stuart will provide additional comments in his remarks.

Turning to slide 5. In June, we announced an agreement to sell our two small hydro facilities, Brown Lake and Miller Creek, to Innergex Renewable Energy for approximately $69 million dollars. The sale of the hydro assets is expected to close next month and a $16 million dollar pre-tax gain on the transaction is expected to be reported in the third quarter. After the transaction is completed, we will have fully met our objective of divesting of all of our hydro facilities.

Turning to slide 6, this slide shows the operating performance of our fleet with respect to plant availability for the second quarter 2012 compared to 2011. Half-way through 2012, we remain on track to meet our full-year availability target.

In the second quarter average availability was 82%. This primarily reflects the timing of scheduled outages, the planned maintenance completed at Genesee 2, Bridgeport, Rumford, Tiverton, Roxboro, and Southport. In addition to this work, the Bridgeport facility experienced a six-week unplanned outage due to a condenser leak, and returned to operations on June 11. I'll now turn the call over to Stuart to review the financial results, beginning on slide 8.

STUART LEE:
Thanks Brian. I'll begin with a summary of our financial performance. As Brian mentioned, financial results in the second quarter reflected seasonal softness, and is also impacted by the New England impairment, the unscheduled Bridgeport outage and weak performance from our North Carolina facilities.

Revenues and other income, on a comparable basis to last year, were $272 million dollars, down 22% compared to the second quarter of 2011. Comparable EBITDA was down 1.4% to $72 million dollars this year compared to the second quarter of 2011. Normalized earnings per share came in at $0.07 cents for the quarter, which was flat year-over-year. As Brian mentioned, normalized earnings were $8 million dollars below our expectations due to an unplanned outage at Bridgeport facility and higher maintenance and fuel costs at the North Carolina facilities.

Funds from operations were $54 millions dollars, down 17% compared to 2011. On a cash flow per share basis we generated $0.55 cents in the second quarter, compared to $0.74 cents in the second quarter of 2011. On slide 9, I'll discuss in more detail t the main drivers for the higher EBITDA from the Alberta commercial plants and portfolio management optimization segment.

This business category reported EBITDA of $55 million dollars in the second quarter of 2012, which was up 25% from the prior year. The increase is primarily driven by two components. First, the strong portfolio optimization performance benefited from strategies to sell forward length to prices higher than spot market. The Alberta commercial portfolio achieved a realized price of $60/MWh in the second quarter of 2012, well above the $40/MWh average Alberta spot price.

The lower spot price was attributable to warmer-than-expected weather across the region resulting in lower demand, healthy base load supply, lower natural gas prices and high output from wind generation. Second, Keephills 3, which began commercial operations September 2011, contributed a full quarter of production.

Moving to slide 10. This graph compares Capital Power's captured Alberta power prices, shown in the blue bar, to the average spot price, noted by the orange bar, each quarter over the past 2 years. As you can see, our captured prices exceeded the average spot price in five of the past eight quarters, with strong performance in the low-price environments, reducing volatility. Over a two-year period, Capital Power's averaged realized price has exceeded spot prices by approximately $6.90/MWh. In addition to capturing higher than spot prices, quarter volatility has been reduced with Capital Power's captured price in the $55 to $85/MWh range, compared to that quarterly spot price averages, which ranged $35 to $95/MWh. This underlines the success of our portfolio management operations in generating additional value and managing risk.

Turning to slide 11, I'll provide an update on Alberta commercial portfolio hedge positions that reflects our base load plants and Sundance PPA. For the last half of 2012, we're 91% hedged at an average hedge price in the high-$60/MWh range. For 2013, we've increased our hedge positions from 20% to 28%, compared to our position at the end of the first quarter. The 2013 hedge position is in the average hedge price in the mid-$60/MWh range. For 2014, there's no change to our hedge position compared to the first quarter. We continue to be 5% hedged in the low-$60/MWh range. Capital Power's hedges provide a secure base for earnings in the second half of 2012.

Our Clover Bar peaking units are well-positioned to add value in the summer and winter peaks and to protect our contracted positions. Summer pricing is off to a good start with this month's average spot price in the $80/MWh range.

Turning to slide 12, I'll review the performance for our two North Carolina plants. There was no EBITDA contribution from the Roxboro and Southport facilities in the second quarter, compared to the $2 million dollar contribution in the first quarter this year. The lower-than-expected performance is primarily due to reduced energy margins from lower than expected heat rates and higher maintenance and fuel costs. The higher maintenance costs reflected plant outages that were longer than expected. We expect lower fuel costs in the latter half of the year based on improved fuel mix, higher fuel quality and lower maintenance costs, resulting in a $6 million dollar EBITDA forecast for the last half of 2012.

Moving to slide 13, I'll review the impairment charge for the North East US assets. As highlighted earlier under IFRS, impairment charges and reversals will be more frequent than in the past. In the second quarter we recognized a pre-tax impairment charge of $74 million dollars, primarily due to lower, current and forecasted spark spreads. The chart on this slide illustrates the changes in on-peak spark spread forwards for the 2012 to 2015 period. The two lines in the chart compare the forward prices in May 2011--which was the approximate closing date of the acquired assets--to the current forwards today.

As you can see, there is a noticeable decline in the current forwards spark spreads compared to a year ago. The fair value paid for the North East US assets was consistent with other transaction values in the market at the time. As mentioned, the impairment charge has no cash flow impact. If operating margins strengthen as expected, a portion of the impairment charge could be reversed.

I'll conclude my comments by providing an update on our financial outlook for 2012 on the next two slides, starting on slide 14. Our latest 2012 financial guidance has not changed, despite the decline in power prices in the second quarter in both Alberta and the New England markets.

Normalized earnings per share for the year continues to track slightly under the low end of our $1.50 to $1.70 dollar target range, based on revised Alberta power prices, which have decreased by approximately $10/MWh, and revised full year spark spreads for the North East US region, which have decreased by approximately $4/MWh. Expected EBITDA contributions from the various segments include: $33 million dollars for the New England facilities in 2012; and $6 million dollars of EBITDA in the last half of the year from the North Carolina facilities, based on expected lower fuel and maintenance costs, compared to the first half of the year. The Alberta commercial position is 91% hedged for the balance of 2012. We also expect commercial operation of Quality Wind and Halkirk Wind projects to begin in the fourth quarter of this year.

Moving to slide 15, TransAlta, as Sundance plant owner, has provided notification of a force majeure claim for up to $39 million dollars, related to the third quarter 2011 outage at Unit 6 due to a transformer failure. We have a 52% interest in the Sundance PPA for Units 5 and 6, and are contractually responsible for paying our share of the claimed amount in advance of the final determination of whether or not a force majeure of the situation as specified in the PPA, occurred. Our view is that the claim will not meet the PPA specified test and we expect to record our share of the claimed amount when it's paid as an amount receivable until final resolution of the claim.

Earlier this week, an independent arbitration panel ordered TransAlta to rebuild its Sundance Units 1 and 2, which TransAlta expects to be returned to service in the fall of 2013. The additional 560 megawatts of power to the Alberta market is expected to decrease power prices and will have a negative impact on Capital Power's earnings and cash flow, until such time as equivalent demand increases or existing supply is retired from the market. I'll now turn the call back to Brian, beginning on slide 17.

BRIAN VAASJO:
Thanks Stuart. On the next three slides, I'll provide a status update on our 2012 corporate priorities. Our operational targets include average plant availability of 91% or greater, reflecting scheduled maintenance outages at Genesee 2 and 3. We have targeted plant capital maintenance capex of approximately $108 million dollars and maintenance and operating expenses of approximately $215 to $235 million dollars. We are on track to meet the 2012 targets on all of these operational measures.

Slide 18 outlines the development and construction targets for our four wind projects. Both Quality Wind and Halkirk Wind projects continue to track on-time and on budget, with commercial operations expected in the fourth quarter of this year. For the other two wind projects in Ontario: Port Dover & Nanticoke and K2 Wind, our original target was to have full notice to proceed in 2012. We are on track for Port Dover & Nanticoke as we've just received the renewable energy approval in July, which is the significant milestone as the REA is the last key approval required to commence construction of the project.

As mentioned previously, in the first quarter results, the full notice to proceed for the K2 Wind project was revised to 2013. Despite the delay date to receive full notice to proceed for K2, we do not expect any change to the expected commercial operation date of 2014 or to the total project costs.

Finally, I'll review our targets on slide 19. Our original target for normalized earnings per share was $1.50 to $1.70, which was based on $74/MWh average Alberta power price assumption. With weaker-than-expected power prices that Stuart outlined previously, we are now forecasting normalized earnings per share to be slightly under the low end of the target range. The rest of our financial targets consist of: funds from operations of $380 to $420 million dollars, cash flow of $3.90 to $4.30 per share, and a dividend coverage ratio of 2.2 to 2.6 times. Based on our current forecast, all these measures are tracking to be near the low end of these target ranges. I will now turn the call back to Randy.

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

QUESTION AND ANSWER SESSION
OPERATOR:
So, ladies and gentlemen, if you do have a question please go ahead and hit '01' and we'll give everyone around 10 seconds to queue up. So, '01' if you've got a question. Now, yes, we do have quite a few people that have queued up. The first question is from Linda Ezergailis of TD Newcrest. Please go ahead, Linda.

LINDA EZERGAILIS:
Thank you. I have a question with respect to the Alberta power market with the recent Sundance A decision. How has that changed your views and your outlook on pricing levels and volatility, how that will unfold? And how might that change your approach to trading and hedging in that market?

BRIAN VAASJO:
Good morning Linda, Brian here. So, when you look at the overall impact of Sundance 1 and 2 coming back into the market, there's sort of three segments. In terms of the short term, until it actually comes back on stream it has no impact on the market. And, certainly, when you look at sometime after the post-2017 timeframe, it has no longer-term implications in the market because essentially what it'll do is displace other generation that was otherwise going to come into the market. So, when you look at that short period, 2014 through 2017, it certainly has an impact of providing greater supply into the market, which has the impact of reducing price and, likely, volatility. When you look at our approach to hedging and how we approach that market, we don't really see that that would change significantly, either the market and market behaviours, nor would it change the way in we approach the market from a hedging standpoint.

LINDA EZERGAILIS:
Ok, all right. And maybe you can help us understand your guidance for the second half of the year, given that the second quarter was affected by some unplanned events. Essentially, that means your guidance would have notionally almost increased for the second half of the year versus your Q1 outlook and I'm just wondering what might be contributing to that, given the weakening power price environment? Do you still have a turnaround at Bridgeport in Q4 or were you able to do all that work during the unplanned outage?

STUART LEE:
So, Linda, no changes in our maintenance schedule for any of our facilities in the back half of the year. I would say, as I think we did, as we've indicated we're short of our internal expectations for the quarter by about $8 million dollars, which, as you've pointed out, is an expectation that we'd pick that up in the back half of the year. And largely, we're comfortable with that forecast because of the ability to lock in additional length at above expectations through the course of the second quarter.

To put it into perspective, as we look at the back half of this year, our guidance would suggest something slightly in excess of $0.90 cents of EPS. If you look at the back half of last year, we would have delivered around $0.80 cents of EPS. And the changes, year-over-year, between those periods is last year we would have had an unplanned outage at Genesee 3 for close to two months in November and December. We wouldn't have had K3 available for two months, because that unit just came online in September. And we do expect to have some contribution out of, particularly, Quality Wind in the late stages of this year. So, if you kind of add those factors, a view that the type of guidance that we're providing for the back half of the year is certainly achievable. The things I would point out, as always, is it is a forecast and the subsequent risk would be around an unplanned outage or if the current forward Alberta prices, which are currently in the high-$70 range; if those were to subsequently weaken and its impact in the remaining open position in Alberta.

LINDA EZERGAILIS:
Ok, great. Thank you.

OPERATOR:
Ok, our next question is from Juan Plessis from Canaccord Genuity. Please go ahead, Juan.

JUAN PLESSIS:
Great, thanks very much. Good morning. Given your experience that you have with the US North East assets, going forward what level of EBITDA contribution would you be looking at for forecasting annually?

STUART LEE:
So, Juan, it will really depend on spark spread outlook for those assets. As always, we typically provide that level of guidance coming in to the prompt year, generally around Investor Day - once we've gone through the full budget process- so it'd be a little bit early for me to step in and comment on that right now. But, I would say that, as we saw in the second quarter, the revision to guidance is really around the unplanned outages as opposed to any fundamental changes in the marketplace from where we're at in Q1.

JUAN PLESSIS:
Ok, fair enough. With respect to Halkirk and Quality Wind, just, can you give us a little more - put some tighter brackets around the timing as to start-up, especially on the Quality Wind?

BRIAN VAASJO:
Brian here, Juan. Actually, as we move through construction on both facilities, one of the elements that plays into it in terms of tightening up from quarters to particular months and, eventually, weeks is the impact of weather. And the weather in Alberta has been particularly wet and has certainly had some impact on absorbing some of the timing contingency that we’ve had in respect to that project. At this time, without us moving along further with the project, it would be pretty difficult to speculate on a more precise timing than we've been providing as it relates to the Halkirk project. As it relates to Quality Wind, again, certainly subject to weather considerations, but it's moving along very well and as Stuart has indicated, we do expect that it will make some contribution in the fourth quarter to our financial results.

STUART LEE:
Maybe the other thing, I would just comment on about Quality. Currently about 1/3 of the turbines have been fully constructed, 1/3 have the bases up, and 1/3 of all the foundations are finished. And, in addition, we've recently hit a major milestone in the fact that back-feed power is now available to all the units. So, very good progress at that site.

JUAN PLESSIS:
Ok, great. Thank you very much.

OPERATOR:
Ok, our next question is from Robert Kwan of RBC Capital Markets. Please go ahead, Robert.

ROBERT KWAN:
Great, thanks. Good morning. Just wanted to come back to guidance and you were mentioning, Stuart, just with the amount that you have locked in at that high-$60 level. I think just even looking at your chart the captured price, though, at the back half of the year in Alberta was at least $70, it looks like $75? So, given that that's what you were capturing in your almost all locked in, you were saying, high-$60, how does that, kind of, square up against replicating and then some?

STUART LEE:
So, part of it will be the fact that you’ve got forwards that are just over $79 right now, Robert, in the back half, for the open position. And, as always, when we run the peaking facilities, whether it be Clover Bar or Joffre (if it operates as mid-merit), typically those capture relatively high power prices so they move up the average captured price. Which you would see reflected in last year's performance but not in our current hedged position because we don't typically comment on hedging our mid-merit or our peaking facilities. So, that's why you see that level of variability.

ROBERT KWAN:
Ok, so, basically, it's sounds like the major driver, you've locked in a good portion here. It's...can you capture the forward curve up at the high-$70s?

STUART LEE:
Correct.

ROBERT KWAN:
And if that's not the case then you'll kind of slip in further below. Is that an accurate reflection?

STUART LEE:
Yeah. As I mentioned, the two major variables that would cause downward pressure on the guidance would be an unplanned outage or if the forwards were to move off significantly in Alberta.

ROBERT KWAN:
Ok. Just the last question I've got. Do you have any updated read on the Federal rules in the discussion that's going on there? Kind of, specific items around whether the 45-year rule might become 50, at least for some of the older units? Anything on substitution and

anything, frankly, new that's popped up that you guys are hearing?

BRIAN VAASJO:
So, there's nothing out on the streets, so to speak, from our perspective other than many-handed rumour. Because where it is, actually, in process is that the government has locked down its consultation process and is not, from our understanding, talking to parties nor looking for additional input, either Provincially or from industry. So, it's a very, very quiet time on that front. Having said that, we are hearing that it should be coming out relatively soon in terms of the Federal Government's position on that regulation.

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

OPERATOR:
Our next question is from Ben Pham of BMO Capital Markets. Please go ahead, Ben.

BEN PHAM:
Ok, thanks very much. Just on Port Dover, I'm just curious. Have you talked about this in terms of the (sic ERA) REA? What are you waiting for now, in terms of the next milestone, before you get comfortable moving that to sanction?

BRIAN VAASJO:
So, essentially, as you're well aware, there have been pretty systematic process, in respect of the permitting process, that you'll have parties who will come forward and formally object to the permit. And it’s been the general course of other developers to proceed based on the merit of those interventions. We'll be going through a process of looking at any interventions that do come forward, any appeals to the permit, and based on the success of the past on any of the particular issues that might come forward, we would expect that we may make a decision to proceed sometime relatively soon. Again, based on the merit of the appeals and how they fit, historically, the pattern of appeals. And certainly, the fitting of the pattern of other project performance.

BEN PHAM:
Ok, and then, just on K2, is that more a first half 2013 type of decision or more to second half? And then, just your thoughts on the construction period: how long that would take in terms of building that project?

BRIAN VAASJO:
So, we would see permitting and so on being complete and moving forward in the first half of next year and would see it being complete and go through construction in 2014.

BEN PHAM:
Ok, thanks very much.

OPERATOR:
Our next question is from Andrew Kuske of Credit Suisse. Please go ahead, Andrew.

ANDREW KUSKE:
Thank you. Not sure if this is for Brian or for Stuart but, just on your slide 10, that's very useful slide just for context but if you could just give us some context and colour around the success of Clover Bar to date, from the time that it came on-line to now in really hitting peaks in the market and really capturing advantageous prices?

STUART LEE:
Well, the comments that I'd make is particularly as we've looked in the last couple of quarters where we've had improved reliability from the Clover Bar units, have really allowed some of that ability to capture that upside and some of the underperformance we saw early part of last year was, in part, due to the fact that we didn't have that level of reliability from the units. But, its added a great deal of additional, not only insurance to our existing position but the ability to capture the volatility in the Alberta marketplace.

ANDREW KUSKE:
Now, given your experience with the LM100, would you look to have that technology in any other, kind of, market region or really replicate the experience in Alberta, that market transitions to more natural gas in the years ahead?

BRIAN VAASJO:
We would certainly build LMS100's in the future. We were experiencing some difficulties as a result, and lower availability, as a result of them being relatively low serial numbers. And, which, to a large degree we had expected a significant amount of that. But, as the units, as the fleet gets more and more hours and as the reliability goes up, we certainly wouldn't expect the same level of front-end experience that we've had with these units. Also, the existence of a lease pool dramatically increases the overall availability of the units. As it relates to other markets and the shift towards natural gas, as you can appreciate, one of the huge benefits of these kinds of units is they can react to complement renewables. Whether it's clouds going over solar farms or whether it's wind dying fairly dramatically these units continue to be very responsive. And as we see and understand there continues to be some demand for that kind of responsive peaking facility.

ANDREW KUSKE:
Ok, that's very helpful. And if I may ask one more question? It relates to the impairment on the North East assets in the US, obviously you made it pretty transparent the compression you saw in the spark spread from the time you engaged in the transaction to now. What would you do differently from, just an M&A standpoint, and really stress-testing your assumptions going in to it? Really, what's the lesson learned from out of this transaction and your approach that you took?

BRIAN VAASJO:
So, as you can appreciate and as we go through a very rigorous process of looking back at major transactions and developments and looking at what are lessons learned and what can we do differently next time. So, certainly as the slide indicates, not only did we go into the market and base our acquisition on what was, I'll call it, the market consensus of where pricing was going but we also had included third party views in our considerations of where the market would go.

Now, one of the things that we'll be doing a little bit more of going forward is actually developing a greater array of different kinds of potential outcomes and seeing whether or not those create, I'd say, a normal distribution and how wide of a distribution around what would be our expectation of price around the market. That could, potentially lead to a different kind of a decision. But, the fact of the matter in this case is that from a commodity market expectation, we were very consistent with, by far, the consensus of views at the time.

Now, there are certainly other things in looking at that acquisition or that group of acquisitions outside of the market. As with any acquisition there's elements as you look back you'd consider looking at a little bit differently. There was some modest acceleration of maintenance and other capital requirements and some of them are actually reflective of good operatorship that we're applying. And a lot of it actually leads to financial benefits that are a little bit too difficult to apply right now in terms of increasing availability and so on. But again, I would say in the future we'd probably look at those types of improvements that we would make to facilities, incorporate that fully into the economics both in terms of costs and in terms of benefit on a go forward basis. Again, certainly some elements that one can learn from as you go through these processes.

ANDREW KUSKE:
Ok. That's very helpful. Thank you.

OPERATOR:
Our next question is from Matthew Akman of Scotia Bank. Please go ahead, Matthew.

MATTHEW AKMAN:
Thanks. Most of my questions have been asked but I wanted to ask a couple of follow-ups on the North Carolina assets and just to make sure I understand what's going on here. The comments you guys made in slide 12 is that one of the drivers for the below expectations result was lower than expected heat rates. And when you think about contracted plants you don't usually think about a lot of heat rate exposure, other than in the plant itself. I think this refers to a market heat rate but I would just like your clarification.

STUART LEE:
Actually, Matthew, just to be clear, I appreciate that maybe it wasn't as clear as it could have been but when we're speaking about heat rates it's really the fuel content and the fact that we weren't getting the output from the fuel that we expected, particularly on the wood side. Part of the issue was the quality of the wood and, in fact, we've replaced one of the key wood suppliers at the facilities because of the low quality of wood that we were receiving.

MATTHEW AKMAN:
Just to clarify: I mean, when you guys said these plants had been contracted, there's no market heat rate exposure on these plants, is there?

STUART LEE:
Not during the contracted period, which is, generally, on peak. There is off peak that is outside of the contract, that there is minor. But it's a pretty modest overall contribution to those facilities.

MATTHEW AKMAN:
So that's not what you meant when you said heat rates?

STUART LEE:
Correct.

MATTHEW AKMAN:
In this comment. Ok, so, it’s just the wording was confusing there. Ok, thanks for that. And on the fuel, I mean, as I recall, going back a number of years, the refurb was around taking different types of fuel, was it not?

STUART LEE:
Correct.

MATTHEW AKMAN:
And what's happened there? Did it work or did it not work?

STUART LEE:
I'd say it's worked but one of the things that's key in the way those facilities operate is hitting the right blend between tire-derived fuel, coal, and wood and making sure you have the right mix. And optimizing overall performance and changes in ambient temperature as well as overall cost of your different three forms of fuel can cause changes in the way you actually provide that fuel mix. And, we're still, I think, optimizing those facilities based on the changes in the boilers and getting the fuel mix correct. I won't say that we're there yet but we've certainly have made progress over the last couple of months.

MATTHEW AKMAN:
Ok. Thanks, those are my questions.

STUART LEE:
Thank you.

OPERATOR:
Our next question is from Paul Lechem of CIBC. Please go ahead, Paul.

PAUL LECHEM:
Thank you. Good afternoon. My question is about the credit rating agency metrics and I think, at Investor Day, you were thinking that 2012 you'd be able to be onside with all of them. I'm just wondering with the changes that we've seen in the markets, the lower prices than expected and especially with Sundance A coming back on, does that change any of your views about meeting your credit rating agency metrics? And I think, also, there were some specific comments that you had about Sun A and the impact that that may actually have on your metrics?

STUART LEE:
So, Paul, for 2012 I think we had commented in the Investor Day that we fully expected to be onside with the DBRS; that we'd be very close, if not meet the S&P metrics for 2012 and if not 2012 then 2013. And, currently, I would say that we continue to be onside with DBRS; no issues. For S&P, the FFO to debt target of 20% will be very close. I don't expect that we will fully meet it this year but the expectation for 2013 is that we will be well onside for 2013. And, as you mentioned further out you have the impacts of things like the Sundance 1 and 2 Units returning and what impact it might have on price and earnings and cash flow going forward; that's likely to be more a 2014/2015 type of impact and as we look forward we'll have the benefit of having Quality Wind producing cash flow. We'll have the benefit of Halkirk producing cash flow. We'd also expect that by 2014 that PDN would be operational at that point in time. So, we do expect some significant cash flow improvement coming from those contracted facilities so, if you were to ask me the near-term impact of this and our credit metrics, I wouldn't expect it to have material impact in the near term.

PAUL LECHEM:
That's helpful, thank you very much.

OPERATOR:
So, there are no other questions at this time.

RANDY MAH:
Ok, so if there are no further questions we'll conclude our conference call. Thanks for your participation today and your interest in Capital Power. Have a good day, everyone.

OPERATOR:
Ladies and Gentlemen, this concludes the Capital Power Corporation's conference call to discuss the second quarter 2012 results. Thank you for your participation and have a great day.

[TRANSMISSION CONCLUDED]