Capital Power Corporation Conference Call
Third Quarter 2012 Results – November 1, 2012

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PRESENTATION

OPERATOR:
Welcome to Capital Power Corporation's conference call to discuss the third quarter 2012 results. At this time all participants are in listen-only mode. Following the presentation we will conduct a question and answer session and instructions will be provided at that time for you to queue up for questions. I'd like to remind everyone that this conference call is being recorded on Thursday, November 1, 2012 at 11:00 a.m. Mountain Standard Time. I will now turn the call over to Randy Mah, Senior Manager Investor Relations. Please go ahead.

RANDY MAH:
Good morning and thank you for joining us today to review Capital Power's third 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 are 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 19 of this presentation and in the Company's third quarter 2012 Management's Discussion and Analysis, dated October 31, 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 Third 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 Third Quarter 2012 financial performance was in line with our expectations. Normalized earnings per share of $0.55 were up 28% compared to the third quarter of 2011. We saw higher average pool prices in the third quarter compared to the first half of the year. The average spot power price in Alberta was $78/MWh in the third quarter compared to $50/MWh in the previous six months. Notably, the Alberta Commercial Plants and Portfolio Optimization segment contributed a record EBITDA of $113 million dollars in the third quarter. Overall, cash flow per share was $1.31 in the third quarter, which was up 8% compared to the same period in 2011.

We have strong operating performance in the third quarter with an average plant availability of 97%. I'll provide a little more detail on this shortly. On October 12th, we completed the sale of our two remaining hydro facilities - Brown Lake and Miller Creek - to Innergex Renewable Energy. Accordingly, we expect to record a pre-tax gain of approximately $11 million dollars in the fourth quarter. The decision to sell the hydro facilities is consistent with our technology focus on four fuel sources: natural gas, coal, wind, and solar.

Turning to Slide 5. Capital Power has reached another milestone with the completion of the first of four wind projects. The construction of the 142 megawatt Quality Wind facility in BC was completed on schedule and the facility is expected to begin commercial operations shortly, following completion of a prerequisite reliability test involving 72 hours of continuous operations.

The Quality Wind project is under budget with final costs expected to be approximately 10% below the $455 million dollar budget. The lower project costs are primarily due to strong project management, including the impact of up-front planning and project execution steps such as value engineering, constructability improvements, and supply chain optimization. With the completion of Quality Wind we continue to build on our construction expertise, which bodes well for the other three wind projects: Halkirk Wind, Port Dover & Nanticoke, and K2 Wind in Ontario.

Moving to Slide 6, I'll provide an update on our Halkirk Wind project. Construction of the 150 megawatt facility in Alberta is on-schedule and the facility is expected to begin commercial operations in mid-December. The project cost is tracking slightly under the $357 million dollar budget. In terms of construction milestones, 100% of the foundations have been installed and 89% of the turbine components have been successfully erected on the foundations. The substation was energized in October and 41% of the turbines have been pre-commissioned. Overall, the Halkirk Wind project is tracking well for completion next month.

Turning to Slide 7, this slide shows the operating performance of our fleet with respect to plant availability for the third quarter of 2012 compared to 2011. In the third quarter, average availability was 97%, which was unchanged from the third quarter of 2011. At Genesee 1 a trial R&D project focused on increasing the marketability of fly ash by-product resulted in an 8-day unplanned outage at that facility.

For Genesee 3, the planned major outage, originally scheduled for the third quarter was delayed until the fourth quarter. The planned outage began on September 30th and is expected to last 36 days. The longer-than-expected outage is due to more work required than anticipated to inspect and repair certain piping.

Turning to Slide 8. With the devastating storm that Hurricane Sandy inflicted on the US Northeast earlier this week, I want to briefly comment on our plants in the affected region. Hurricane Sandy had no material impact on our operations and only minor superficial damage. At our Bridgeport facility we followed our emergency response procedures that resulted in the plant being taken offline for a couple days as a safety precaution. It is now available for service. There was no other impact on our other two Northeast US plants, Rumford and Tiverton; or on our two North Carolina plants, Roxboro and Southport. I'll now turn it over to Stuart to review the financial results, beginning on Slide 10.

STUART LEE:
Thanks, Brian. I'll begin with a summary of our financial performance for the third quarter. As Brian mentioned, financial results in the third quarter were in line with our expectations. Revenues and other income, on a comparable basis to last year, were $376 million dollars, up 17% compared to the third quarter of 2011. Higher revenues were primarily driven by portfolio optimization strategies that I will review in more detail shortly. Third quarter 2012 revenues also benefitted from having a full quarter of contributions from Keephills 3, compared to one month in the third quarter of 2011.

Comparable EBITDA was $145 million dollars this year, up 22% compared to the third quarter of 2011. Normalized earnings per share came in at $0.55 for the quarter, which was up 28% year-over-year. Funds from operations were $128 million dollars, up 10% compared to 2011. Looking at cash flow per share, we generated $1.31 in the third quarter of 2012, up over 8% from the comparable period last year.

Turning to Slide 11. This slide shows our financial results on a year-to-date basis. Revenues and other income, on a comparable basis to last year, were approximately $1 billion dollars, down 3.2% compared to the third quarter 2011. Comparable year-to-date EBITDA was up 35%, at $356 million dollars, primarily reflecting the strong 2012 performance of the Alberta Commercial Plants and Portfolio Optimization segment. Through nine months, normalized earnings per share are $1.06, which is up 22% year-over-year. Funds from operations was $298 million dollars, up 13% compared to 2011. Finally, cash flow is $3.05 per share, up slightly compared to $3.01 for the nine months of 2011.

Turning to Slide 12, I'll review in more detail the main drivers for the record Q3 2012 EBITDA contribution in the Alberta Commercial Plants and Portfolio Optimization segment, which came in at $113 million dollars, up 57% from the prior year. The increase is primarily driven by two components. First, the Q3 2012 position was largely sold forward at higher rates than 2011 and the Clover Bar peaking units were effectively dispatched to capture the upside in pricing. Second, Keephills 3, which began commercial operations in September 2011, contributed a full quarter of production.

In terms of our Alberta commercial portfolio hedge positions, our current hedges are as follows: as we enter into the fourth quarter of 2012 we're 69% hedged at an average hedge price in the mid-$60/MWh range. For 2013, we have increased our hedge position from 28% to 32%, compared to our position at the end of the second quarter. The 2013 hedge position is at an average hedge price in the mid-$60/MWh range. And, for 2014 we've increased our hedge position from 5% to 14%, also in the mid-$60/MWh range.

I'll conclude my comments by providing an update on our financial outlook for the balance of 2012 on Slide 13. If power prices for the fourth quarter remain consistent with the third quarter levels, we remain on track to meet our revised annual financial targets. This includes normalized earnings per share that are expected to be slightly under the low end of our target range of $1.50 to $1.70 per share.

The 31% unhedged Alberta commercial position in the fourth quarter provides an upside opportunity. We expect positive Q4 contributions to cash flow and earnings from Quality Wind project, which is expected to commence commercial operations shortly, with the Halkirk Wind project following in mid-December 2012.

As Brian mentioned, the Genesee 3 planned outage in the third quarter was delayed to the fourth quarter and is currently off-line. The Genesee 3 outage began on September 30th and the facility is expected to return to service on November 5th. Our portion of the maintenance costs is expected to be approximately $10 million dollars. I'll now turn the call back to Brian.

BRIAN VAASJO:
Thanks, Stuart. Starting on Slide 15, 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 capex maintenance of approximately $108 million dollars and maintenance and operating expenses of $215 to $235 million dollars. We are on track to meet the 2012 targets on all of these operational measures.

Slide 16 outlines the development and construction targets for our four wind projects. As mentioned, Quality Wind is expected to commence commercial operations shortly, on-time and approximately 10% under budget. The Halkirk Wind project continues to track on-time and slightly under budget with commercial operations expected in mid-December. 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 still on track with Port Dover & Nanticoke as we received a Renewable Energy Approval in July and have commenced construction of the project. As previously disclosed, full notice to proceed for K2 Wind project has been revised to 2013. Despite the delay, we do not expect any changes to the expected commercial operation date of 2014 or to the total project cost.

Finally, I'll review our financial targets on Slide 17. Our original target for normalized earnings per share was $1.50 to $1.70 based on $74/MWh average Alberta power price assumption. With the weaker-than-expected Alberta power prices that averaged $59 for the first nine months of the year, our expectations for normalized earnings per share is to be slightly under the low end of the target range. The rest of our financial targets consist of funds from operations of $380 million 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 of these measures are tracking to be near the lower end of these target ranges. I'll now turn the call back over to Randy.

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

QUESTION AND ANSWER SESSION
OPERATOR:
Ok, perfect. So, ladies and gentlemen, if you do have any questions please go ahead and hit '01' on your keypad. And we'll give everybody maybe 10 seconds to queue up. So, '01' now if you've got any questions. And our first question is from Linda Ezergailis of TD Securities. Please go ahead, Linda.

LINDA EZERGAILIS:
Thank you. Congratulations on the strong quarter. I just have a question with respect to the Federal final coal power emissions regulations? I was a little bit surprised to see no change in your depreciation rate, unlike another major coal generator in Canada, and I'm wondering, are you just waiting for Alberta's equivalent regulations to be enacted? And what would be the timing of that? Or will there be no change in your estimated lives of those assets over the next little while?

STUART LEE:
So, Linda, it's Stuart. We are contemplating whether or not we would make a change to our depreciation lives but it would be subject to final passage of that legislation so it's something that we'd be looking at when that happens.

LINDA EZERGAILIS:
Ok. And when are we expecting final passage?

STUART LEE:
It's fourth quarter.

LINDA EZERGAILIS:
Fourth quarter?

STUART LEE:
Late, this year.

LINDA EZERGAILIS:
Ok. And, just wondering what the thought process was for delaying the G3 outage to Q4? Was it to order some extra piping that you needed or did you only discover that once you started the outage? Or?

BRIAN VAASJO:
It's quite normal to move outages around based on availability of labour, outlook for power prices, and a number of other elements and I would characterize it as a normal shift in outage timing.

LINDA EZERGAILIS:
Ok. And are you able to provide any colour, so far, on your preliminary expectations for outages next year in timing?

STUART LEE:
So, typically you'd see a rotation between the various units and now with K3 in operation you'd expect to see two units per year; two of our major coal units per year. So, next year you'd expect to see K3 come out for its maintenance cycle and Genesee 2.

LINDA EZERGAILIS:
Ok, great. Thank you.

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

PAUL LECHEM:
Thank you. Just a question around the full year guidance, if I can on Q4, here? Given that you've updated the guidance based on pricing in Q3 versus pricing based on Q2, which was a lot weaker, but you kept the annual guidance the same so is the main delta there, the factor that you kept guidance the same, is that because the G3 outage comes into Q4 or is there anything else we need to think about in terms of why the guidance has remained unchanged from prior? For EPS?

STUART LEE:
Right. As you mentioned, Paul, there was the shift in outage so Q3 results may be a little bit higher based on the shift from Q3 to Q4 and, obviously, Q4 would be a little bit lower based on that shift in timing. But, overall, power prices landed in the range we expected for the quarter for Q3, consistent with what we'd outlined at the end of Q2 and that's why you haven't seen a shift in guidance from what we provided earlier this year.

PAUL LECHEM:
Ok. Have we updated the thinking based on what we've seen in Alberta in October, which was a pretty strong month? Is the thinking still that you would remain unchanged or could we see some upside just based on what you've seen over the month of October?

STUART LEE:
We remain with the same consistent outlook.

PAUL LECHEM:
Ok. Can you also give me some thoughts about your views on Alberta's power pricing going in to next year and how that might be influencing your hedge position of 32% and just some thinking about that, please?

STUART LEE:
So, as we look at 2013 our view of the market is not a lot different than where the forwards are at today, which is in the $56 -$57 dollar/MWh range. Where we are on our hedge position is partly affective just liquidity in the marketplace and opportunity to sell up forward in the position. Particularly leading up through the end of Q2, I think that not a lot of trading in the 2013 period as people were awaiting the outcome of the arbitration decision on Sun 1 and 2 and so as we see more liquidity in the marketplace you'd expect just to see us, in normal course layoff, some of that length.

PAUL LECHEM:
Ok. Just a final question: what is your current thinking about the impact of Sun A returning to the market, what will that have, in general, on the power price? Can you quantify that, to some extent?

STUART LEE:
As we disclosed in the MD&A, we do expect that obviously it’s additional supply in to the marketplace. It is an energy-only market so it has depressed prices for the 2013-14-15 periods. As I mentioned, our view on 2013

isn't all that different than where the forwards are at. But the Alberta marketplace continues to see strong demand growth, continues to be one of the best markets in our opinion, for power assets in North America and we certainly don't see a change in that over the mid-to-longer term.

PAUL LECHEM:
Ok. You have no specific thoughts in terms of the dollar impact to pricing that Sun A might have?

SPEAKER:
I think we've seen the impact in 2013, in particular.

PAUL LECHEM:
Ok. Thanks.

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

BEN PHAM:
Oh, hi. Thanks guys. Good morning. Just wondering on the credit ratings. I know you get this question a lot. Have you had a chance to talk with them lately, Stuart or Brian, with Quality Wind coming in to service soon and then the power prices coming down?

STUART LEE:
So, we have ongoing dialogue with S&P and DBRS, our rating agencies and as we've outlined before, with DBRS we're well on-side their financial metrics this year that they've set as targets. For S&P, as we've previously discussed, their FFO to debt target at 20%; it's on an adjusted basis. And on that adjusted basis we expect to end the year somewhere close to the 19% range, so very close to the target. As we look forward to 2013, you have the additional cash flow that's coming from the wind projects, which is a plus, partly offset by the fact that you're going to have an expectation of weaker prices in Alberta. So some of it's going to depend on where actual Alberta prices land.

BEN PHAM:
Ok. And just on the credit metrics. I mean, 19% and they're talking about getting towards 20% to maintain that rating and, certainly, maintaining a BBB credit is important to you guys but do you get a sense that that's restricting your ability to grow right now? That credit rating overhang there?

STUART LEE:
I'd break it in to two components. On the acquisition side: no. I don't think it restricts us at all. You effectively fund and you have immediate cash flow associated with that. Obviously you're looking for projects that will deliver at least 20% FFO to debt on those type of acquisition opportunities. On the development side a little bit different because you are tying up capital. Through the construction period, you're adding debt without having immediate cash flow associated with that so it does cause some pressure on those measures. So, as we look at our development pipeline, our emphasis is really 2015-16-17. We have a good portfolio of projects coming through on the wind side through 2013 and '14. I don't know that we'd be looking to add, necessarily, materially to that in the short term, just given some of the outlook on the overall FFO to debt metrics.

BEN PHAM:
Ok. Just one more from me. Switching to North Carolina and just give me a better sense, Stu, just what's happening out there. I mean, just some pressure on the cost side of things, maybe just some additional colour there would be appreciated.

STUART LEE:
Sure. So on the revenue side consistent with the contracted nature of the PPA, we're seeing revenues that are largely in line with our expectations. But on the cost side, particularly on fuel costs and on the overall capacity, we're not seeing what we would have expected and are disappointed obviously with the results we've seen over the last nine months on those facilities. A lot of work and time is being spent by Engineering and Ops in trying to optimize those facilities. We do expect, as we continue to work through some of the issues, that we'll address those, particularly as we move into 2013.

Quite frankly, Q3 results are a little bit better than what you'd normally look at if you just look at the bottom line, given the fact that you had an inventory adjustment that really relates to prior periods. But, a lot of effort is being spent within the organization to make sure we get those facilities back to capacity, expectations, and to increase the fuel efficiency and heat rates of those two assets.

BEN PHAM:
Ok. Thanks guys.

OPERATOR:
Our next question is from Juan Plessis of Canaccord Genuity. Please go ahead, Juan.

JUAN PLESSIS:
Great, thanks very much. With respect to 2013 hedges, I can appreciate that it's difficult to hedge given the low liquidity in the market but what are you targetting for your hedge position going in to 2013? Where would you like to be at?

BRIAN VAASJO:
Good morning, Juan. Brian here. The way that we look at the hedging position - assuming that we're not getting constrained by the restrictions we have around the level of open position or level of capital risk - what we do is we generally look out and determine what sort of a price profile we expect going forward through, in this case, 2013. And you may remember two years ago we went in almost fully hedged because, generally, we expected that prices would come in below what we would be able to transact from a forward standpoint. And looking at 2013, in looking at the forwards a lot would depend on, as we go through the balance of this year, what the opportunities are to transact and whether or not those opportunities, or the price around those opportunities, are higher or lower than our own expectations. Certainly if prices were higher than our expectations you would see us hedge as much as we possibly could. On the other hand, if prices were coming in significantly below what our expectations were you would expect us, certainly, to continue to hedge some but you wouldn't see us as hedged as we potentially could be. So a lot of it is dependent on market opportunity.

JUAN PLESSIS:
Ok, thanks for that. So is it safe to say that you would be comfortable going in to 2013 at a hedge position below 50%?

BRIAN VAASJO:
So long as that wasn't driven by lack of liquidity in the market. If we've had the opportunity to transact then our view on price and where we end up ends up being what the result would be that you would see. If there tends to be a lack of liquidity in the market then we may well have some degree of discomfort.

JUAN PLESSIS:
Ok. Now, shifting to the Northeast US plants. Your EBITDA guidance is still for $33 million dollars for the year. For the nine months, I think you've recorded $26 million dollars after even after incurring an outage at Bridgeport. So, are you still comfortable with that $33 million dollar guidance or is it fair to say you might be tracking in excess of that number?

STUART LEE:
It's fair to say that we're tracking to the number.

JUAN PLESSIS:
Ok. Thank you very much.

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

ROBERT KWAN:
Good morning. Just wanted to get a few more details around the portfolio optimization in Alberta Commercial. I guess, just in terms of pure trading, are you able to quantify how much that impact was, or how much better than your budget it was?

STUART LEE:
So, again, Robert. When we look at the overall portfolio, I think people maybe misconstrue when we talk about portfolio optimization that there's a lot of trading activity or more, kind of, on the speculative nature. It's not; it's really looking at timing of when you lock prices in and then how you optimize with assets like Clover Bar. So when we look at the performance in the quarter, the fact that we were able to realize prices that were higher than spot, largely driven by the fact that we have sold forward a significant portion of the position coming in to the quarter. And then, on top of that, as we saw volatility in prices through the summer months we were able to dispatch Clover Bar very effectively to capture that upside in prices. And, therefore, if you kind of look at year-over-year on the quarter, if you look at the actual dispatch numbers and the megawatt hours of production out of Clover Bar, you'll see it's up fairly substantially. And a lot that is driven just by the position and the way it's been optimized. And that's why when we talk about; we really refer to portfolio optimization as opposed to just trading.

ROBERT KWAN:
Right, and, I guess, Stuart, though if I look at Clover Bar - and it ran quite a bit more during the quarter yet the revenues were only up $4 million dollars and with the extra fuel burn you might be above $3 million on EBITDA so it doesn't seem to me to be a material factor; certainly positive but not material. And the hedges going in, I guess, are what they are. Is there a way you can quantify, say, the movement of the positions within the quarter, then? How much it did impact that was?

STUART LEE:
In addition to just the amount of running time we had on something like Clover Bar you're also selling things like ancillary services.

ROBERT KWAN:
And that wouldn't be in the revenue?

STUART LEE:
It would be in the revenue but you have spinning reserves and if you look at the overall EBITDA coming out of that facility you've imputed a fuel value to it but the overall EBITDA coming out of Clover Bar would be considerably higher than it was a year ago.

ROBERT KWAN:
So, the revenues were up $4 million but the costs, you're saying, were down a pretty substantial amount, then?

STUART LEE:
It'd be down a substantial amount both because of the price of gas and also the fact that a significant portion of revenue would have been ancillary services where you're not necessarily incurring a lot of costs.

ROBERT KWAN:
Ok. Was there a lot of movement within the quarter, then? I.e., we saw the front half of the quarter pretty low prices, low volatility and that really picked up in the back half. And, I guess, if we look at where your Q4 hedges are it's quite a bit lower than, say, where you gave the guidance on the second half. So, was there a lot of repositioning of the hedge book during the quarter that was ending up in the Q3 results?

STUART LEE:
Not in repositioning of it. Again, what you'll see is coming in to Q3 the balance of the year was about 91% hedged. Most of that, or a significant portion of that, was Q3 hedges as opposed to Q4. And, therefore, as you look at the balance of the year at 69% it reflects the fact that a lot of Q3 was fully hedged with a little bit less coming in through Q4.

ROBERT KWAN:
Ok. Maybe just a last question on this topic. In the MD&A you cite something around having a shorter position in 2012 during the quarter and that helped the results. Can you talk a little bit about that? Particularly in light of spot prices being higher than your hedge prices so how that actually helped the quarter?

STUART LEE:
So, it's again a reflection on what I commented on: the fact that coming in to the quarter we were largely sold forward, the position was largely sold forward versus the prior year we would have had a larger open position coming through the quarter. And the forward sales would have been at or above the actual settled prices, the actual spot prices at the time.

ROBERT KWAN:
But if you were largely hedged for this quarter and more open last year, the spot price was significantly higher last year so you would have had more open megawatts at the higher price. How does that…I'm struggling with how that benefits this quarter?

STUART LEE:
Your last year coming in to the quarter, obviously more open position but the forward sales would have been maybe at a lower rate relative to where the actual spot price settled, which was in the $90-plus dollar range.

ROBERT KWAN:
Right.

STUART LEE:
Right? And you would have also had a position that was, with the additional length, less opportunity to run Clover Bar given the overall length of the position. So the ability to optimize Clover Bar to generate some of the additional revenues and ancillary revenues and others was less of a factor in 2011 than it was in 2012.

ROBERT KWAN:
Ok, that's great, Stuart. Just one last question, shifting gears here. Is there any update on any of the RFP's down south that you'd been previously talking about?

BRIAN VAASJO:
Brian here. Yes, there are RFP's emerging on the solar front that we are participating in over the next, over the next few quarters. In addition to that there, as you may recall, we were participating in a process in New York for a natural gas facility. We were short-listed. The target that LIPA was looking for was dramatically reduced and they narrowed the short-list to two and we were not one of the successful parties.

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

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

ANDREW KUSKE:
Thank you. I guess my first question is just for you, Stuart, just on a little bit on the accounting behind the optimization. So, if you engaged in a forward sale, just say, in Q1 of this year. You engaged in a forward sale of Q3 power, when do you actually account for that? Do you wait until the actual cash realization from a settlement standpoint?

STUART LEE:
So, not an easy question to answer because the accounting can depend. And I'll, maybe, try to explain it, Andrew. Typically what would happen if we ended up with a forward sale in instances where we are able to provide hedge accounting to it and you have a physical position that backstops that you wouldn't mark-to-market that position and so when it settles in the quarter you would recognize the gain or loss on both a cash basis as well as an income basis. There are certain instances where we do forward sales where we may not be able to

document hedge accounting for that particular sale, in which case it would be mark-to-market. In our earnings, in our normalized earnings, typically we would exclude those mark-to-market gains and we recognize it when it actually settles and so it's a bit of a mix. Generally speaking, when there are opportunities to do hedge accounting we do utilize it but not in all instances is it possible.

ANDREW KUSKE:
Ok, that's helpful. And then a bigger, broader question probably goes to Brian. Just in the context of looking out over the next say 5 and 10 years and probably beyond, in the Alberta power market it looks like there's going to be very significant repowering of that market place as some of the older equipment - not yours, but others - comes offline and slowly gets retired and that market should transform and whether it's a lot more natural gas, cleaner coal if it becomes really viable in the future. How do you look at yourselves from a cost to capital basis competing in that market place? And I ask the question in part, there's a competitor, obviously, is just TransAlta that has had some cost to capital issues engaged in a partnership, a new partnership, with MidAmerican, which should effectively lower their cost of capital. There is other players within the market, whether they be TransCanada, Enbridge, that all have some appetite for power assets. Just how do you see yourselves positioned from a cost of capital basis over the longer term in Alberta?

BRIAN VAASJO:
So, just from a broad perspective certainly cost of capital is important and certainly the opportunities that are out there drive how organizations should be looking at them from an incremental impact on the overall corporate cost to capital. I would say with that grouping of organizations that you referred to I would not think that the cost to capital would be a differentiator as to whether or not one would be successful or not in pursuing opportunities. I would say factors such as location, timing, technology behind the facility - those types of elements would have a much greater determination, or be greater determining factors in terms of who might be successful and who may not be successful, in terms of developing projects. But I would not consider cost to capital; again, differentiating cost to capital versus the availability of capital. There again, sort of, two different issues there but around cost to capital across those organizations, don't see that that would be a differentiating factor in this market.

ANDREW KUSKE:
So, on the repowering, and that's very helpful context, but on the repowering if you looked at the three major incumbents: yourselves, CU, and then TA, how would you, sort of, foresee your market share, relative market share in Alberta, say, 5 or 10 years from now?

BRIAN VAASJO:
Well, we continue to be very bullish on the market. I mean, certainly, Sundance 1 and 2 has an impact on the market but looking across our competitors, certainly TransAlta we continually compete against and partner with in terms of new opportunities as they evolve in the province. I believe ATCO is pretty clear on record that they won't build merchant so that pretty much...unless they have a change in corporate direction don't really see them as being a competitor for new generation in the province. Other than, of course, they are very effective developers and builders of co-gen facilities inside the fence so, certainly may well be pursuing those kinds of opportunities.

ANDREW KUSKE:
And then, if I may, just one final one and that is related. Do you see the regulatory environment really changing in Alberta because the build numbers are large? If we looked over the next 10-20 years, to try to draw developers in to the market does it become more of a contracted type market? Is it still going to be a very tradable market? What are your thoughts on that?

BRIAN VAASJO:
So, the contracted nature would have to be driven by the demand side as opposed to the supply side. Now, certainly as you say, there's going to be some significant turnover of assets happening over the next decade or two and certainly that, in combination with new growth, may well attract new participants. It does provide an opportunity for other power generators wanting to be in a true market situation. May well see Alberta as a tremendous opportunity. And, again, with size would be availability of being able to gain a fairly significant position may well see opportunities for new entrants in to the market. But, certainly continued competition among the incumbents as well.

ANDREW KUSKE:
Ok, great. Thank you.

OPERATOR:
Our next question is from Jeremy Rosenfield of Desjardins. Please go ahead, Jeremy.

JEREMY ROSENFIELD:
Great, thanks. So, a few questions here, just, first, very quickly. On the G1 research project, do you expect any continuation in to the fourth quarter or was that really isolated in the third quarter and that project won't be continued forward?

BRIAN VAASJO:
So, we're continuing to look at the circumstances around the outage. Certainly believe that as we go forward with other testing there would be no further outages associated with it. Don't expect that there will be any activity in the fourth quarter around enhancing the value of our ash but certainly would expect something through next year.

JEREMY ROSENFIELD:
Ok, and just to be clear. The $1.50 full year EPS estimate is going to be normalized so that would exclude the impact from this third quarter, correct?

STUART LEE:
That is correct.

JEREMY ROSENFIELD:
Ok, great. Just turning to Quality, you were really able to drive the budget on that project down. I'm just curious if turbine pricing has helped at all or if there was a strategy related to turbine sourcing that you might be able to carry over to some of the other projects, specifically the longer-term ones in Ontario?

BRIAN VAASJO:
So, certainly the turbine costs and material costs have had a positive impact on the project. And we do see some similar benefits incorporated in our expectations across each of the projects. Having said that, the bulk of the 10% is actually what I'd attribute to good project management and the ability to value engineer, before you start building, and some very significant work done on constructability, which is effectively understanding a project extremely well, being on top of contractors, working with contractors, to generally reduce your costs of construction. So I would characterize the bulk of the benefit coming from very active management of the project, both in the design and conceptualization and, as well, in the execution.

JEREMY ROSENFIELD:
Ok, and also related to Quality: is there any potential upside in terms of adding turbines on the land nearby if for some reason BC is interested in acquiring additional renewable resources from that area potentially related to power to supply BC LNG projects?

BRIAN VAASJO:
So, there is certainly the topography there that you could certainly add turbines. You could add fairly significantly sized wind farms. The geography is there. The PPA's are not of a nature where they can be opened and you can add capacity to it at that pricing. So it would take a change in the direction in which the BC government, or BC Hydro, procures renewable energy. That's not to say that at some point they may not entertain opening up contracts to add capacity.

JEREMY ROSENFIELD:
Right.

BRIAN VAASJO:
But that ability doesn't exist today.

JEREMY ROSENFIELD:
Ok. And then maybe just one higher-level question also. When you think of the cash flows that are going to come from the new wind farms that are going to be starting up over the next couple of years, really, what's the right balance between paying back shareholders by way of potential dividend increases versus redirecting some of that capital to invest in other growth opportunities, whether it be on the renewable side or new gas assets in the Alberta market?

STUART LEE:
So, Jeremy, it's Stuart. It really depends on the nature of the opportunities that are in front of you. To date we've seen a number of fairly significant opportunities to reinvest in contracted assets like we have been doing over the last couple of years. With PDN coming up next year and K2 Kingsbridge coming up after that we continue to have a good pipeline of opportunities to reinvest and drive shareholder value associated with that. But you're right, there is a balance between returns to investors through dividends as well as driving growth in share value through growth projects and we continue to evaluate that and our view is that we're well positioned in the long term to deliver both.

JEREMY ROSENFIELD:
Ok, great. Those were my questions. Thanks.

OPERATOR:
There are no other questions at this time.

RANDY MAH:
Ok, if there are no further questions we will conclude our call. As a reminder we will be hosting our Annual Investor Day event in Toronto on December 6th. Additional information on the event will be communicated early next week. Thanks again for joining us today and for your interest in Capital Power. Have a good day everyone.

OPERATOR:
Ladies and gentlemen this concludes Capital Power Corporation's conference call to discuss the third quarter 2012 results. Thank you for your participation and have a great day.
[TRANSMISSION CONCLUDED]