

Capital Power – Analyst Conference Call August 29, 2013

Corporate Participants:

Brian Vaasjo, President & CEO

Stuart Lee, Senior VP & CFO

Randy Mah, Senior Manager, Investor Relations

Conference Call Participants:

Linda Ezergailis, TD Securities

Robert Kwan, RBC Capital Markets

OPERATOR:

Welcome to Capital Power's conference call. 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, August 29, 2013 at 8:00 A.M. Mountain Standard Time. I will now turn the call over to Randy Mah, Senior Manager Investor Relations. Please go ahead.

RANDY MAH:

Good morning and thank you for joining us today. Yesterday Capital Power announced an agreement to sell its New England assets and a refocusing of its merchant power business in Alberta. The purpose of this conference call is to provide you with additional information related to yesterday's announcement. The presentation slides for this 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 start I would like to remind listeners that certain statements about future events made on this conference call are forward looking in nature and are based on certain assumptions and analysis made by

the company. Actual results may differ materially from the company's expectations due to various material risks and uncertainties associated with our business. Please refer to the cautionary statement on forward-looking information on slide number 2.

In today's presentation, and in responses to questions, we will be referring to various non-GAAP financial measures as noted on slide number 3. These measures are not defined financial measures according to GAAP and do not have the standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures used by other enterprises. I will now turn the call over to Brian for his remarks starting on slide number 4.

BRIAN VAASJO:

Thanks, Randy. This morning we'll provide you with some background information on yesterday's announcement and talk about how we are refocusing our business to create immediate and long-term value for our shareholders and rebalance Capital Power's portfolio risk.

Our discussion will cover an overview of the business activity implications, including the New England transaction and the redeployment of capital; a change in the strategy and rationale for a simpler, more focused business; how these changes will create immediate and long-term value for shareholders; and, finally, Capital Power's vision and investor proposition.

Turning to slide 5, I'll start off with a review of the business activity implications. Yesterday we announced an agreement to sell our New England assets to Emera for \$541 million dollars. We have also decided that we will not pursue merchant assets outside of Alberta and we will pursue our merchant activities in Alberta only. As a result, the Commodity and Energy Trading business activity outside of Alberta will be wound down before the end of the year.

We will be closing our West, East, and Natural Gas trading desks. In addition, we will be closing our Toronto office immediately and our Chicago office in 2014. There are no impacts to our Alberta or Environment desks nor to our Alberta origination activities. With these changes, operating complexity and resource requirements are significantly reduced.

For contracted generation, we will pursue growth opportunities across North America. More specifically, our teams in Alberta and the United States will continue to pursue growth opportunities; seeking contracted development and acquisition opportunities outside of Alberta and a mix of opportunities inside Alberta. The end result of these changes is that Capital Power's business will be simpler, more focused, and easier for the market to understand and determine value.

Moving to slide 6. The strategic rationale for focusing our merchant business is to reduce merchant risk and earnings volatility. With a divestiture of 1,050 MW of New England merchant generation and winding down East, West, and Natural Gas trading operations, it will reduce the quarterly and annual volatility in our financial performance. The stability of financial performance will also be enhanced with our investments in the Shepard facility, which will add new stable cash flow through a long-term tolling agreement and near-term contracted and hedging agreements.

In addition to reducing volatility, we expect that concentrating merchant investments in Alberta only and operating a leaner core business will improve shareholder return. The Alberta power market is North America's fastest growing market with continuing strong demand growth, a significant need for replacement generation as coal units retire, and stability in its overall regulatory and market structure. We see high-value investment opportunities for Capital Power in the Alberta market and expect our

investments in the Shepard Energy Centre and the future Capital Power Energy Centre to deliver more improved and more stable returns for our shareholders. With the refocusing of our merchant power business we expect to enhance returns to our shareholders in the short, medium, and long-term with less risk.

Turning to slide 7. With our investments in the Shepard and Capital Power Energy Centre later in the decade, Capital Power will own high-quality baseload, mid-merit, renewable and peaking generation in Alberta that will enhance our merchant focus in the province.

As you see in the chart, the growth in our Alberta generation capacity is expected to more than double from our IPO in July 2009 to approximately 2,800 megawatts by the end of the decade. I'll now turn the call over to Stuart.

STUART LEE:

Thanks, Brian. On slide 8 I'll discuss the financing plan to fund our strategic growth opportunities. The gross proceeds from the New England asset sale is approximately equivalent to the expected carrying value of the assets projected at closing of the transaction. We plan to redeploy the net proceeds in the transaction to fund the final tranche payment for our 50% investment in the Shepard Energy Centre. Our current growth projects consist of the Shepard facility and our two wind projects, Port Dover & Nanticoke and K2 Wind. We expect the total construction cost of these projects will be financed with the net proceeds from the New England transaction, cash from operations, and a modest amount of debt. We do not expect any further equity issuances, excluding the current DRIP, will be required to fund our existing growth opportunities.

On slide 9, I'll highlight the financial impacts of the changes that Brian has outlined. By operating a simpler, more focussed business, it will lead to lower

G&A expenses and we expect immediate accretion in both cash flow per share and earnings per share.

Net of expected trading margins, we expect the overall financial impact of the business refocusing, excluding the sale of the New England assets, to reduce costs as follows:

Annual expense reductions of approximately \$25 to \$30 million dollars per year. To be clear, the cost reductions are primarily in G&A and reflect a more focused business model as well as information systems investments and lower expected capital market activity. As a result, there's been downsizing across all areas, including trading operations, business development, accounting, treasury, regulatory, legal, HR, and other areas.

These expense savings result in annualized earnings to increase \$0.20 to \$0.25 per share and annualized cash flow to increase \$0.25 to \$0.30 per share.

With the refocusing of our business we expect to record a restructuring charge of approximately \$10 million dollars in the third quarter of this year.

Turning to slide 10. We continue to make investments in contracted wind opportunities, which will generate significant incremental cash flow. We completed Quality Wind and Halkirk projects in 2012 and expect to have Port Dover & Nanticoke operational in the fourth quarter of this year. The K2 Wind project is expected to be operational in 2015. These four wind projects add 377 megawatts of owned generation to our fleet.

On a combined basis, the four wind projects are forecasted to add \$150 to \$165 million dollars in annualized cash flow before financing and we expect these wind assets to be accretive to cash flow by approximately \$0.90 to \$0.95 cents per share and

accretive to earnings per share by approximately \$0.35 to \$0.40 cents. I'll now turn the call back to Brian.

BRIAN VAASJO:

Thanks, Stuart. To summarize, Capital Power remains committed to its vision of being one of North America's most respected, reliable, and competitive power generators. We intend to provide investors with a stable and growing contracted cash flow base, with upside exposure to the Alberta power market. This is supported with more than 1,450 megawatts of generation under long-term contracts that provide stable cash flows, supports the dividend, and enhances access to capital. The contracted cash flows are growing with the addition of PD&N in late-2013, and K2 Wind and Shepard in 2015.

Capital Power will operate the best fleet in Alberta and be ideally positioned to benefit from this attractive power market. We expect to enhance returns to shareholders in the short, medium, and long-term with less portfolio risk while operating a leaner core business. This includes ongoing reductions in annual expenses and accretion to both earnings and cash flow on a per-share basis that Stuart described. The medium and long-term returns are enhanced by investments in the Shepard and Capital Power Energy Centre facilities.

Portfolio risks and earnings volatility are reduced by investments in Shepard, divestitures in New England, and focusing on merchant activity. We expect to achieve growth through investments in contracted opportunities across North America and focusing merchant investments in Alberta. I'll now turn the call back to Randy.

RANDY MAH:

Thanks, Brian. Matthew, we're ready to start the question and answer period.

QUESTION AND ANSWER PERIOD

OPERATOR:

All right, perfect. So, ladies and gentlemen, if you do have any questions please go ahead and hit the '01' on your telephone keypad. We'll give everyone maybe 10 or 15 seconds here to queue up. So, it's '01' now if you've got any questions. And...we do have a couple of people that have queued up. First person is Linda Ezergailis from TD Securities. Please go ahead, Linda.

LINDA EZERGAILIS:

Thank you. Congratulations on executing the sale. I have a question around your costs savings number? Can you just, perhaps, break it down between how much of it is salary savings versus rent and what, sort of, offset there is in terms of lost trading revenues and any other major components?

STUART LEE:

Sure, Linda. So, on the breakdown. Typically, if you look in the Other category, Other EBITDA, that we disclosed in the MD&A, you'll see that annually it tends to be around \$8 to \$10 million dollars of EBITDA. About half of that is driven from the Natural Gas and West desks. So, somewhere between \$4 to \$5 million dollars worth of margin associated with those trading activities.

Offsetting that is primarily cost savings. Not only from the trading side but, you know, from the G&A across all areas of the company. As I mentioned, in the description I just talked to, that make up that \$25 to \$30 million dollars. There's a little bit that's associated with rent but it's very small for the shut down on both the Toronto and Chicago offices. So, primarily salary savings and primarily in the G&A areas.

LINDA EZERGAILIS:

Ok, that's helpful. And, maybe, just a follow-up question - I assume you had discussions with the debt ratings agencies before this announcement but can you give us an update on how those discussions are

going and how you think this might be interpreted, from a credit perspective?

STUART LEE:

So, as part of our annual review process with the rating agencies, we had talked to them about our strategic intent. Obviously, we had previously talked to the market as—as the rating agencies were aware of us divesting the New England...or our intent to divest the New England asset. So they were well aware of that.

We also talked about our expectation that we refocus the business. Overall, we see it as risk reducing, as Brian talked to, and I think that view is shared by the rating agencies. And I think they reflected that in our most recent updates that they would have released over the last couple of months.

LINDA EZERGAILIS:

Great, thank you.

OPERATOR:

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

ROBERT KWAN:

Morning. Can you just give us, what you expect the net proceeds on a cash basis from the transaction to be?

STUART LEE:

So, your gross proceeds at \$541 million dollars less selling costs and selling costs are, I think, around plus legal, are probably around \$7 million dollars.

ROBERT KWAN:

Ok. And the \$10 million dollar restructuring charge – is that all a cash charge or is some of that going to be in non-cash breakdown?

STUART LEE:

That's going to be a cash charge.

ROBERT KWAN:

\$10 is cash, ok. Just, I guess, the last question I've got in terms of refocusing in — in the statement around no

merchant outside of Alberta...can you just talk about, though, when you're looking at potential future acquisitions how much contract term you would want around a contracted asset that you might acquire and how you may be thinking then about managing the residual merchant risk?

BRIAN VAASJO:

So, Robert, when we look at that...and a lot of it's driven by the particular circumstances that the markets are in today and our competitive position, we actually don't see a significant amount of acquisition opportunities that are out there. Our focus is going to be substantially on development of green field to brown field opportunities. Whether they be in the US or in Canada. So, from that standpoint we'll be looking predominantly at, in long-term contracts. 15 to 25-year type contracts.

In the event...and, just to underscore, the low probability that there is some sort of an acquisition opportunity that does arise and, there can certainly be some shoulder risk around the merchant side of it. Our expectation right now is that we'd probably contract that. We would—there are a number of parties out there that provide, basically, the transactional services in merchant markets and we would subscribe with one of those in—in all likelihood if it was a very small one. If it was more significant that that then we'd have to rethink, a little bit, as to how we'd manage that particular risk.

But recognize there's a significant difference between day trading and 24 operations and simply dispatching a merchant plant when there are economic opportunities. Actively trading and taking a position is certainly different than again, managing the risk around an asset. And, I don't see that we would get into an actual trading, more merchant, more robust situation. We would look to, again, simply managing the risk around the asset and optimizing, then, the value of selling

whatever merchant tail or merchant component there may be around it.

ROBERT KWAN:

Ok, so just to be clear. So, if you were to step into an asset that had a remaining contract term less than 15 years, you would look to effectively extend the term into that 15 to 25-year window with a financial hedge and if you weren't able to do that, that probably isn't an acquisition then that you would be particularly interested in going ahead with?

BRIAN VAASJO:

That would certainly cause us pause and likely, would result in us probably going in a different direction. Yes.

ROBERT KWAN:

Ok, that's great. Thank you.

OPERATOR:

Ok, so there are no other questions queued up at this time, but—but I often find that there are quite a few more questions. I don't know, Randy, if you want to give everyone, maybe, another opportunity – a few seconds here – to queue up again? That's '01'

RANDY MAH:

Yeah, let's just wait, about 30 seconds or so.

OPERATOR:

All right, perfect. Ok, well, it doesn't look like anybody is queuing up.

RANDY MAH:

Ok, if there are no further questions we'll conclude our conference call. Thank you for joining us today and have a good day, everyone.

OPERATOR:

Ladies and gentlemen, this concludes Capital Power's conference call on Thursday, August 29th. Thank you for your participation and have a great day.

[TRANSMISSION ENDED]