Capital Power Corporation Conference Call
First Quarter 2013 Results – April 29, 2013

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PRESENTATION
OPERATOR:
Welcome to Capital Power Corporation's conference call to discuss the first quarter 2013 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 Monday, April 29, 2013 at 9:00 a.m. Mountain Standard Time. I would now like to 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 first quarter 2013 results, which were released on Friday, April 26th. 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 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 2.

In today's 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 Management Discussion and Analysis for the first quarter of 2013. I will now turn the call over to Brian for his remarks starting on Slide 4.

BRIAN VAASJO:
Thanks Randy, and good morning. I'll start off with a review of the significant items in the first quarter. On February 28th, we completed the $237 million dollar payment to ENMAX for a 25% interest in the Shepard Energy Centre. This payment represented the first of two tranche payments that comprise the transaction. With the completion of the first tranche payment, Capital Power and ENMAX now jointly control the Shepard project. The second tranche for the remaining 25% interest that we will be acquiring is scheduled for the first quarter of 2014.

Last December, at our Investor Day, we announced major expansion plans in Alberta, including the development of the new Capital Power Energy Centre. The Capital Power Energy Centre will be a natural gas combined cycle facility with up to 900 megawatts of capacity. We indicated at the time that we were evaluating two potential sites for the facility. The site has now been selected. It will be built near our Genesee plant, west of Edmonton. The site has existing infrastructure, utilities, and close proximity of natural gas and transmission lines. We are targeting commercial operations in the 2017 to 2020 timeframe to meet projected supply requirements in the province. With this project, we continue to explore partnering opportunities.

Slide 5 shows the operating performance of our fleet with respect to plant availability for the first quarter of 2013 compared to 2012. Overall, the strong operating performance resulted in average plant availability of 94% this quarter, which is below the exceptional 97% availability in the first quarter of 2012. We achieved plant availability of 92%, or higher, from all of our facilities this quarter with the exception of our Tiverton plant. The plant availability at Tiverton was 51% due to a scheduled outage that was moved ahead from its original timing in the latter half of the year. The outage was accelerated after inspection of the equipment revealed that work should be done sooner rather than later. The outage was executed within the original budget, scope, and duration.

Turning to Slide 6. Our Halkirk Wind facility had exceptional performance in the first quarter and was in fact Alberta's best performing wind facility. With its attractive geographical location in central Alberta, Halkirk produced approximately 25% more revenue in the first quarter than the average of all Alberta wind units. Halkirk's capacity factor of 42% was consistent with the majority of the wind facilities in the province that are located in southern Alberta. However, when you look at the realized Alberta power price, Halkirk had realized price of $48/MWh, compared to $37 for the southern Alberta wind facilities. This is in addition to the REC credits from California.

On a percentage basis, Halkirk captured 73% of the average pool price, compared to 56% for the southern Alberta wind facilities. In its short five months of operations, Halkirk has already proven itself to be a very attractive asset, one that is performing in-line with our expectations.

Quality Wind generation performed consistent with expectations as well. I'll now turn the call over to Stuart to review our financial performance.

STUART LEE:
Thanks, Brian. On Slide 7, I'll quickly recap the financial performance of the first quarter. Alberta power prices averaged $64/MWh in Q1 2013, which was slightly higher than the $60/MWh for the same period a year ago. With power prices being relatively flat, the main driver for the reduction in year-over-year financial results was a higher captured price differential versus spot price in the first quarter of 2012.

To quantify this, last year in Q1 our trading desk had a very big quarter, capturing an $83 price, which is $23 dollars higher than the $60 average spot price. This year, the capture price was $69/MWh versus the $65 /MWh spot price.

Revenues and other income were at $354 million dollars, down 2.2% from Q1 2012. Adjusted EBITDA was $122 million dollars in Q1 2013, down 12% on a year-over-year basis due to lower performance from the North East U.S. commercial plants and from Other Portfolio Activities. The results of the North East U.S. were negatively impacted by the major winter storm in February and the movement of Tiverton's planned outage.

Lower performance for Other Portfolio Activities reflected natural gas trading losses, partly offset by the impact of a reduction in the provision for estimated future losses on certain natural gas contracts.

Normalized earnings per share was $0.36 in the first quarter, compared to $0.46 last year. And funds from operations were $103 million dollars in the first quarter compared to $116 million dollars in Q1 2012.

Turning to Slide 8. This slide shows our Alberta commercial portfolio hedge positions for the remaining nine months of 2013 and for 2014 and 2015. For the balance of 2013, we're 52% hedged with an average hedge price in the mid-$60/MWh range. For 2014, we're 73% hedged at an average hedge price in the high-$50/MWh range. And for 2015, we're at 48% hedged in the mid-$50/MWh range.

One thing that I want to point out that is different from our previous disclosure… These hedges now reflect the various agreements we have in place with ENMAX that were entered into as part of the Shepard transaction.

The forecast average contracted prices may differ significantly from future averaged realized prices as the hedged and unhedged positions have a varying mix of differently valued priced blocks of power. This impact is accentuated in 2014, which includes one contract-for-differences for 300 megawatts for the full year that is sold for peak periods only.

I'll conclude my comments by providing our financial outlook for 2013 on Slide 9. There's no material change to our financial outlook that we provided at the 2012 year-end. The 2013 financial targets are based on an average power price in Alberta at $58/MWh, compared to the $64/MWh average price in 2012.

On a year-over-year basis we expect lower realized prices on our unhedged position, profitability from our Clover Bar peaking facility, and incentive revenues from Genesee 1 and 2. This is expected to be offset by full year contributions of Halkirk and Quality Wind and stronger plant availability of 93%, compared to 91% in 2012.

We have two major scheduled outages at the Genesee 1 and Keephills 3 facilities and both are scheduled for the second quarter.

The useful lives of our coal facilities have been increased to 50 years from 45, in accordance with revised Federal Government coal regulations, resulting in lower depreciation expense, which is estimated at $2 million dollars per quarter.

We continue to review alternatives to provide funds to finance our most strategic growth projects. Through this process, we remain committed to retaining our investment grade credit rating and minimizing dilution to existing shareholders. Therefore, we continue to look at a monetization of a subset of assets. Possible alternatives include the sale of a partial or whole interest of bundled wind assets, the Halkirk Wind facility, the North East U.S. assets, and other combination of assets. I'll now turn the call back to Brian.

BRIAN VAASJO:
Thanks Stuart. Starting on Slide 10, I'll provide a status update on our 2013 corporate priorities. Our operational targets include the average plant availability of 93% or greater, reflecting the scheduled maintenance outages at Genesee 1 and Keephills 3 that Stuart referenced. We have targeted sustaining maintenance CAPEX of approximately $105 million dollars and maintenance and operating expenses of $225 to $245 million. We are on track to meet the 2013 targets on all of these operational measures.

Slide 11 outlines the development and construction targets for our two wind projects in Ontario. We have received all requisite regulatory approvals and necessary agreements to proceed with the Port Dover & Nanticoke project and are on track to begin commercial operations in the fourth quarter of this year. For K2 Wind, we're on track to obtain our environmental approvals on the project later this year. We continue to work towards having K2 Wind begin commercial operations in 2015. Finally, we are on track with our target for the Shepard Energy Centre and its $860 million dollar budget.

In closing, I'll quickly compare our first quarter performance against our annual financial targets on Slide 12. Our 2013 financial targets assume an average Alberta power price of $58/MWh and include normalized earnings per share of $1.20 to $1.40. Funds from operations of $385 to $415 million dollars, and cash flow per share between $3.80 to $4.20 per share. With the first quarter now completed there are no changes to our outlook and we are on track to meet our annual financial targets.

I'll now turn the call back over to Randy.

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

OPERATOR:
Thank you. I'd just like to remind everyone on the phones, if you'd like to queue up to ask a question please press '01' now. First question comes from Canaccord Genuity. Juan Plessis, please go ahead.

JUAN PLESSIS:
Thanks very much. With respect to potential asset sales to fund Shepard, when do you expect to make a decision on what assets you'll be selling and, also, would you still consider selling any assets below your purchase price or construction costs?

BRIAN VAASJO:
Good morning, Juan. So we would expect to come to a landing on which assets, which approach we'll be taking, sometime through the summer months.

In terms of selling assets below book value, we wouldn't expect that any assets sales would result in that result.

JUAN PLESSIS:
Ok, thanks for that. Now, do you feel the need to sell assets to fund Shepard or would you also consider more conventional funding means like project debt and common or preferred equity?

BRIAN VAASJO:
So we made it very clear with the acquisition of the Shepard development that, as we moved forward, we felt that the most prudent approach in order to capture the significant upside of Shepard that the sale of assets was an appropriate and prudent funding approach and now we haven't moved from that position.

JUAN PLESSIS:
Ok. Thanks for that. Now, just moving on here. Your 300 megawatt contract-for-differences in 2014 is for peak periods only. Does that imply that you have no hedges on this block for off peak hours and, given that the contract is for peak hours, can you tell us at what price the contract has been negotiated at?

STUART LEE:
So, Juan, it is for peak periods for that 300 megawatt block in 2014. I would say that if you look at the off peak the expected realized price would average about $55, kind of mid-$50's, for that. That's what's implied in it but I wouldn't be specific around the exact because that's a contractual negotiated item that I wouldn't want to comment on.

JUAN PLESSIS:
Ok. So, is it fair to say that much of that 27% of 2014 Alberta commercial generation that's unhedged is for off peak hours?

STUART LEE:
There's still some on peak on it, but probably a little bit more balanced to the on peak than off, based on that 300 megawatt block.

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

OPERATOR:
Thank you. The next question comes from BMO Capital. Ben Pham, please go ahead.

BEN PHAM:
Ok, thanks very much. Good morning everybody. Just on the question on the book value and, just, not having to sell below book. Are you guys adjusting for your impairment charge that you take?

STUART LEE:
So Ben, anytime we look at carrying value it's based on depreciation plus any impairments that would have be taken on those assets.

BEN PHAM:
Ok. And then, just to stay on the same topic, can you just elaborate on why you decided to put New England in terms of potential disposition there? And then can you also elaborate on what you mean by other combination of assets?

BRIAN VAASJO:
So, bringing the New England asset in to the potential sales process or the disposition process to generate funds – when we sat back and looked at the grouping of assets that were substantially outside of Alberta that obviously was a group that met the overall financial criteria. i.e., enough proceeds in sale. But in looking at it from a strategic standpoint, from a risk standpoint, and from a number of other perspectives certainly seemed to be a pretty positive outcome, assuming that we get the value that we would expect for those assets.

In terms of the other asset groups, we continue to look at other groupings of assets or combinations of assets with some of the asset groups that have been referenced already. At this point none of them would tend to be higher probability than the three that have been mentioned.

BEN PHAM:
Ok. Thanks for that. And, just lastly staying on New England on the hedging profile, I know you had 72% at the beginning of the year, so can you just speak to how much you have hedged now for the balance of 2013?

STUART LEE:
The balance of 2013, Ben, is just over 70%.

BEN PHAM:
Ok, great. Thanks everybody.

OPERATOR:
Thank you. Next question comes from Jeremy Rosenfield of Desjardins Capital. Please go ahead.

JEREMY ROSENFIELD:
Yeah, thanks. Good morning everybody. Just on the New England assets in the quarter, their performance. I'm guessing that fuel costs were quite high at Bridgeport. I'm wondering if you can just, sort of, give a break down in terms of fuel costs versus fixed items at all, just so we have better clarity?

STUART LEE:
Jeremy, off the top of my head I can't give you that breakdown but let me take that one away.

JEREMY ROSENFIELD:
Ok, great. I'm just curious, staying in New England, if the decision to move up the Tiverton outage had anything to do at all with, sort of, that plant's heat rate relative to where market gas prices were? Or if it was entirely related to the outage needing to be, sort of, solved at that point? Not being able to run the plant?

STUART LEE:
So, we had a scheduled borescope inspection for Q1 and that borescope inspection it identified some work that needed to be done on some of the turbine blades and so the decision was made to pull forward that work, which was already scheduled for Q4 to Q1 and do that work early. And so, effectively, we would expect to recover the majority of the lost profitability, which was about $2 million dollars in the quarter and offset that with what was expected to have to be done in Q4.

JEREMY ROSENFIELD:
Ok, great. Maybe just one other question. In terms of the ENMAX PPA and the structure of it. You're saying that it's more peak-oriented. Does that have any impact on the track record that Capital Power has of historically beating average spot prices in the Alberta market? Should we expect that practice to continue?

STUART LEE:
I think that our view is that it doesn't change our ability to effectively maximize value on our portfolio. Again, we have, probably, a little bit of a distinct portfolio from other players in the market and what's disclosed doesn't

include some of the on peak ability to use our gas assets, which is quite different than, as I mentioned, other peers.

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

OPERATOR:
Thank you. Our next question comes from Linda Ezergailis from TD Securities. Please go ahead.

LINDA EZERGAILIS:
Thank you. Can you maybe just provide us with your broader outlook on the U.S. North East? Has anything changed since your Investor Day?

BRIAN VAASJO:
No, our general views on the U.S. North East tend to be generally the same as they were on Investor Day. There's always minor positives and minor negatives but on balance our view of the market continues to be the same.

LINDA EZERGAILIS:
Ok, that's very helpful. And just, in terms of going back to Alberta, seems to be a win on the transmissions front in terms of the most recent decision by the regulator, but can you talk a little bit more about next steps and what the book ends of possibilities might be, in terms of financial impact, when the final decision is issued early next year?

STUART LEE:
And so, Linda, I assume you're talking about the line-loss factors?

LINDA EZERGAILIS:
Yes.

STUART LEE:
So, at this point in time, until there is clarity around what that decision might be, very difficult to determine what the financial impact is. So, hard to give any specific guidance around that but obviously, as you mentioned, we're encouraged by the recent decision.

LINDA EZERGAILIS:
Ok, great. Thank you. This is more a housekeeping item but sometimes you provide EBITDA sensitivities to Alberta and New England power prices in your presentation. Don't see them this time. Is it possible maybe to get them from you at some point?

STUART LEE:
I don't think there's any intent not to provide those on an ongoing basis so we'll certainly look at including that for Q2.

LINDA EZERGAILIS:
Great. Thank you.

OPERATOR:
Thank you. Our next question comes from Robert Kwan of RBC Capital. Please go ahead.

ROBERT KWAN:
Good morning. Stuart, can I just go back to New England and the answer you gave of the Tiverton outage recovering the $2 million dollars. Are you referring to just swapping the costs out of Q4 into Q1 or is that the revenue impact?

STUART LEE:
Both, it's revenue and costs.

ROBERT KWAN:
Ok, so I guess, just with that, if we look at New England's performance year-over-year, are you able to provide a bit more of a breakdown than with that to where the rest of that came from? Was it all Bridgeport and, with respect to on one hand, any hedging you had. Anything that might have still be awry on the heat rate hedge and then the outage/storm impact?

STUART LEE:
Sure. So, the two items that had an impact in the quarter, as we mentioned in the MD&A were the Tiverton outage and the timing on that, which was, effectively, just timing. And then the storm impact was about a $3 million dollar impact at Bridgeport, specifically. The plant came offline with the heavy snow. If you look at 2012 comparison, obviously, you ended up with about $13 million dollars of EBITDA; very strong quarter, higher than expected last year. And this year our expectation was in the $7 to $8 million dollars worth of EBITDA range. We came in at $4 and primarily the drivers are the two items mentioned.

Your comment around Bridgeport. Obviously, we saw some pretty strong spark spreads at, particularly in Connecticut and for the Bridgeport facility, although we weren't able to capture all that with the hedge that was in place.

ROBERT KWAN:
Ok, so the hedge really kind of held it back?

STUART LEE:
Yes.

ROBERT KWAN:
Ok. Just back to asset sales. Is the amount that you're looking to raise limited to plus or minus the Shepard funding or are you considering something a little more extensive with respect to optimizing your capital

efficiency? And, specifically, whether you'd look to raise an amount to say buy back the EPCOR shares.

STUART LEE:
No. Our monetization of assets is strictly to fund the Shepard investment. We're not looking to do anything beyond that.

ROBERT KWAN:
Ok. Just a last question. Halkirk; pretty good numbers, especially with the capture versus the other wind facilities. I'm just wondering is that roughly 75%-ish number typical of what your modeling would have suggested?

STUART LEE:
It is and over the long term we would have expected it to be slightly better than that. But certainly, the delta between southern Alberta and our Halkirk facility is very consistent with how we would have modeled that when we acquired that development opportunity.

ROBERT KWAN:
Ok. That's great. Thank you.

OPERATOR:
Thank you. Our next question comes from Andrew Kuske from Credit Suisse. Please go ahead.

ANDREW KUSKE:
Thank you, good morning. Just on Slide 4. You discuss, in relation to the Capital Power Energy Centre, you are continuing to support partnering opportunities. Just wondering, philosophically, what really underpins your partnership decisions?

BRIAN VAASJO:
So it's a couple of things. We've never partnered with people just for capital. Our decision will be based on strategic considerations, which can be whether the party brings any specific advantage for either Capital Power or the project in general. Things of that nature could be trading position, could be contracts, could be a whole range of things. That again, add value to the project or add value to Capital Power as opposed to just bringing capital. So, it would be based on a broad view of what a party might bring to the project.

ANDREW KUSKE:
Now ideally, are you looking for repeatability of partner relationships?

BRIAN VAASJO:
Well, as you know we have a number of relationships here in the province, actually, with ENMAX, TransAlta, and ATCO. Certainly there's advantages to dealing with existing partners on projects. We certainly see that with the TransAlta partnerships. But it would not be a defined preference that would make a significant difference in our decision.

ANDREW KUSKE:
Ok, that's all I wanted.

BRIAN VAASJO:
We would be happy to participate with a new participant in the market or a market participant that we haven't partnered with.

ANDREW KUSKE:
Ok, thank you. And then just one final question, and I think this came out on the AGM on Friday. Just in relation to Arizona and potential solar in Arizona. It seems like you have a bit of a land position there at this point in time. Is that invested dollars in actual land or do you have option rights on land at this point? What's, sort of, the size and scale of the possible project you'd look at?

BRIAN VAASJO:
So, just to put the whole discussion in context. We have a very large land position there, about 10,000 acres if I recall rightly, which — depending on the technology you utilize — is somewhere between 300 and 500 megawatts of solar power. In addition, there's a site that would be appropriate for natural gas generation. So that is a longer-term view as to the potential of that site.

We have rights to it, but the cost to obtain the right and the cost to maintain the rights is very small. I don't recall, offhand, but it certainly is immaterial. So we look at that as a longer-term opportunity to eventually build out an energy or group of energy assets in, sort of, the magnitude that I described.

What was implied at the Annual General Meeting was the fact that there is a tremendous amount of competition in the solar arena today. And that's given the lack of opportunities worldwide and the abundance of manufacturers and developers so a very, very heated market. As we look forward, we don't believe that we would be in a strongly competitive position for a little while until the market shifts, either through fewer competitors or a much greater increase in opportunities. But again, it's costing us very little to maintain that option on the future.

ANDREW KUSKE:
So essentially, ride the land option for the period of time until you can secure a PPA with some reasonable size or parlay the land to somebody in a partnership that has a PPA in hand?

BRIAN VAASJO:
Precisely.

ANDREW KUSKE:
Ok, thank you very much.

OPERATOR:
Thank you. Our next question comes from CIBC. Paul Lechem, please go ahead.

PAUL LECHEM:
Good morning. Just wondering if you can give us some more colour around the North Carolina plants. You mentioned in the write-up that your REC pricing will be lower through 2013 and ’14. What about the underlying performance of the plants? Should we expect some uptick? Was there anything unusual in the course? You mentioned availability of wood fuel but I’m just trying to get a sense of what a reasonable run rate might be for those facilities?

STUART LEE:
So Paul, a lot of work has been done on optimizing those assets and particularly around fuel mix, and so we’d increased the amount of wood as well as tire-derived fuel and, effectively, have pulled back almost all of the coal that is being used to burn in those facilities, which over the longer-term should have a fairly positive impact on fuel costs.

For the balance of the year no different than when we came into the year. At Investor Day we suggested we would expect about $1 million dollars plus per quarter in EBITDA from those assets in 2013. And, moving up in 2014 and when the RECs come back on in 2015, there’s another $3 to $4 million dollars of annual EBITDA through the REC contracts through the balance of the PPA.

PAUL LECHEM:
$3 million a year?

STUART LEE:
Yes.

PAUL LECHEM:
Ok. Thanks. Just in terms of the comments you’ve made about selling off assets. Your comments about selling off bundled wind assets: Halkirk Wind, I’m trying to understand. Are you moving away from wind? Are you, sort of, emphasizing more the thermal facilities? Would you look to monetize Port Dover & Nanticoke and K2 even before they’re completed? I mean, is wind becoming less of a strategic fuel type for you moving forward?

BRIAN VAASJO:
No, not at all. We actually are quite encouraged by our performance in wind, both in construction and, obviously, in operations thus far. No, we see that as being absolutely a strength of the organization and would certainly be pursuing wind in the future.

Again, it’s simply looking at assets, looking at their attributes, looking at strategy. Looking at a whole range of considerations and determining those which may well be the best for us to dispose of. Again, just to underscore the fact that we’re not in the business of either buying or developing assets and selling them. We ended up making a decision to pursue the project jointly with ENMAX, the Shepard project, with a view that to finance it prudently we needed to sell some assets. And it’s only under those kinds of circumstances that we would be selling assets. And again, going through a process to seeing which of the assets we would dispose of. And again, absent the decision to go forward with the Shepard project, we wouldn’t be selling any assets. They are all good assets with great futures.

PAUL LECHEM:
Ok, thank you. Thanks Brian.

OPERATOR:
Thank you. We have no more questions in the queue for now.

RANDY MAH:
Ok, if there are no more further questions we will conclude our call. Thank you for joining us today and for 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 first quarter 2013 results. Thank you for your participation and have a nice day.

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