Capital Power
First Quarter, 2014 Results Conference Call
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Conference Call Participants

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OPERATOR: Welcome to Capital Power's first quarter 2014 results 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 May—sorry, on Monday, April 28th, 2014 at 9:00 am Mountain Daylight 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 first quarter 2014 results, which were released on Friday, April 25th. The financial results and the presentation slides for this conference call are posted on our website at www.capitalpower.com. We will start the call with opening comments from 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's Discussion & Analysis, dated April 24th, 2014, for the quarter ended March 31, 2014.

I will now turn the call over to Brian for his remarks starting on Slide 4.

BRIAN VAASJO: Thanks Randy. I'll start off with a review of the significant events that have taken place in the first quarter and subsequent to then. As announced in December, we are participating with ENMAX to pursue joint arrangement agreements to develop, construct, own, and operate the Genesee 4 & 5 facilities. The project ownership agreements have been executed with the balance of the agreement substantially negotiated. The agreement provides provisions for an 8-year tolling arrangement, under which ENMAX would purchase approximately 225 megawatts (MW) of our output.

For the K2 Wind project, construction has begun following the successful completion of the $850 million project financing last month. Commercial operations for the 270 MW wind facility is targeted for the second half of 2015.

Turning to Slide 5 – the coal required for the Genesee power plant is supplied by the adjacent Genesee coal mine under a joint venture between Capital Power and Prairie Mines, with Prairie Mines as the operator. Last December, Sherritt International announced that it planned to sell its coal business, which would include its interest in Prairie Mines, to Altius Mineral Corporation and Westmoreland Coal Company, the latter of which would acquire Prairie Mines, the operator of the Genesee coal mine. In connection with the acquisition by Westmoreland, certain related agreements will be amended and Capital Power will receive a payment of $20 million dollars upon completion of the acquisition. Westmoreland is the oldest independent coal company in North America, and with the addition of the Sherritt operations, it will be the leading mine-mouth coal operator in North America. We are confident that their extensive coal-mining experience and scale will make a positive contribution to Capital Power's bottom line in the coming years.

Slide 6 highlights the first quarter plant availability operating performance of the first quarter 2014, compared to the first quarter of 2013. Overall, we achieved strong fleet availability of 94% in the second [first] quarter of 2014, which was unchanged compared to the first quarter of 2013. Of note, our Alberta commercial plants, consisting of Genesee 3, Keephills 3, Clover Bar Energy Centre, Joffre, and Halkirk achieved a 98% average availability. At our Genesee 1 facility, there was a 10-day unplanned maintenance outage to perform valve repairs, which resulted in a lower availability of 83%.

I will now turn the call over to Stuart to review our financial performance.

STUART LEE: Thanks, Brian. I'll start off by reviewing our financial performance for Q1 2014, starting on Slide 7. One of the drivers impacting our first quarter results for this year, compared to Q1 2013, was how our trading desk positioned the portfolio. Going into Q1 this year, we're significantly hedged at 92%, resulting in a captured price of $58/MWh. In Q1 2013, we were only 49% hedged and the trading desk was able to capture a much higher price of $69/MWh. The average spot price of $61/MWh in Q1 2014 was also lower than the average spot price of $65 in Q1 last year, which resulted in lower results from the portfolio optimization activities and the commercial plants.

Turning to Slide 8, which compares our financial performance for the first quarter of 2014 to 2013, revenues were $308 million dollars, down 16% from Q1 2013, due to the November 2013 sale of the New England assets. This was partially offset by higher revenues from portfolio optimization activities and the addition of Port Dover & Nanticoke. Adjusted EBITDA, before unrealized changes in fair values, was $106 million dollars in Q1 2014, down 13% - primarily due from lower results in the Alberta commercial plants and acquired Sundance PPA segment that were impacted by the difference in hedged positions and captured prices on a year-over-year basis, which I outlined earlier. Both normalized earnings per share and funds from operations were also down by about 13%, which is consistent with the lower adjusted EBITDA results on a year-over-year basis.

I'll conclude my comments by reviewing our financial outlook for 2014 on Slide 9. There's no change to our 2014 annual financial guidance. We expect to generate funds from operations in the $360 million to $400 million-dollar range, which is based on an average Alberta power price forecast of $57/MWh. In comparison with full year 2013 when Alberta power prices averaged $80/MWh, we expect lower realized prices on our unhedged position and lower profitability from the Clover Bar peaking facility. This will be partially offset by a full year of earnings from Port Dover & Nanticoke and higher plant availability of 95%.

Historically, our disclosure of our hedge positions reflected the baseload coal plants and the Sundance PPA. We have revised the methodology to include a portion of our gas plants that operate at high-capacity factors and have an operating expectation similar to a baseload plant. Therefore, we are now including a portion of Joffre and the uncontracted portion of Shepard in our hedge position disclosure. For the remaining 9 months of 2014, we are 92% hedged on an average hedge price in the mid-$50/MWh range. For 2015, we are 71% hedged at an average hedge price in the low-$50/MWh range, and for 2016 we're at 22% hedged in the mid-$50/MWh. The average hedge prices for these time periods are generally consistent with where the forward prices were at as at the end of Q1 2014. I'll now turn the call back to Brian.

BRIAN VAASJO: Thanks, Stuart. I'll conclude my comments by providing a brief status update on our 2014 corporate priorities on Slides 10 and 11.

The operational targets include: plant availability average of 95% or greater, $85 million dollars for sustaining CAPEX, and approximately $165 to $185 million of maintenance and operating expenses. As Stuart indicated, our 2014 financial performance is to generate between $360 to $400 million in funds from operations. Although the first quarter results were modestly below our expectations, we remain on track to achieve these annual targets.

Slide 11 outlines our development and construction targets. As mentioned, we have commenced construction on K2 Wind, following the completion of the $850 million project financing in March 2014. The total estimated project cost has been revised upwards to $930 million, from the upper end of the range of $900 million – primarily due to the higher US dollar on US contract deliverables. Capital Power's 1/3 share of the project is $310 million. With a higher portion of the project financed from project debt than originally planned, we expect higher equity returns.

The construction of the Shepard Energy Centre in Calgary is nearly completed and we are on track to begin commercial operations in early 2015. Finally, we continue to make progress on the Genesee 4 & 5 project with our joint venture partner ENMAX, as discussed earlier. I'll 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: Perfect. So, ladies and gentlemen, if you do have any questions, please go ahead and hit '01' on your telephone keypad. We'll give everyone a few moments here to queue up. So, it's '01' now if you've got any questions. And, yes, we do have a few questions. The first question is from Paul Lechem of CIBC World Markets. Please go ahead, Paul.

PAUL LECHEM: Thanks. Good morning. Maybe just to start off with questions on Genesee 4 & 5 and the agreement with ENMAX on the purchase agreement. Can you talk about why 8 years? How did you arrive at a, sort of, an 8-year time frame for this contract versus 20 years for Shepard? And is it split between units 4 and 5? Can you just…to give us some sense of how it actually might play out over that 8-year period?

BRIAN VAASJO: Good morning, Paul. So, in regards to why an 8-year period – that generally ended up being a matter of negotiation. Obviously Capital Power would certainly like to have longer-term agreements. On the other hand, ENMAX had to prudently match that with their requirements. And, again, you're talking about a period that, if you assume, for example, that the plants went in place in 2020, that extends out to 2028. So, it's quite a ways out into the future. So, it tended to be just, as I say, a matter of negotiation.

PAUL LECHEM: And does that 225 MW require both units, 4 & 5, to be built or if unit 4…if only unit 4 got built would the 225 MW number still hold true?

BRIAN VAASJO: There is some flexibility around that. That's probably premature for me to go into it at this point.

PAUL LECHEM: Ok. And then, just on the emissions costs in Alberta. Can you explain the $4 million dollar charge you took in the quarter? Why was that not already being expensed and the decision to pay it in cash versus using offset…can you talk a little bit about that decision as well? Thank you.

STUART LEE: Sure. So the additional expense in the quarter relates to actually 2013, and we had accrued effectively, based on our historic practice of using our inventory, which, historically, has been around $10/metric tonne versus paying the SEGR compliance costs, which is typically around $15. And the reason we elected to pay using the set rate, as opposed to using our inventory, was a belief that we'll see SEGR compliance costs go up – as early as 2015 but likely 2016 time period. And it became an economic decision and, therefore, we elected to, instead of using our inventory to pay the $15 dollars/tonne. Going forward expect…and what was included in our guidance was an expectation that we'd see compliance costs up for 2014 about $1 million dollars a quarter.

PAUL LECHEM: I got you. And can you give any commentary around your thoughts about how much more CO_2 costs will be in 2015 and '16? Per tonne?

STUART LEE: Again…

PAUL LECHEM: Can you make an assumption on that?

STUART LEE: We're making an assumption. There's nothing legislated around changes at this point in time. But, our internal view is that it moves up somewhere between $20 and $25 dollars over the next couple of years per tonne.

PAUL LECHEM: Ok, great. I'll leave it there. Thank you.

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

JUAN PLESSIS: Oh, thank you. Brian, as you've mentioned, there's a capital cost increase for K2 but you've been able to raise more project debt and likely at lower rates than originally budgeted. Can you tell us, generally, what the net impacts of these changes are to the absolute dollar returns of the project?

BRIAN VAASJO: So, in terms of the absolute dollars, we expect to be modestly ahead when you net those factors out.

JUAN PLESSIS: Ok, great. Thank you for that. And you've spoken in the past about giving some consideration to a dividend increase when you have line of sight to Shepard start up. What construction milestones, if any, would you have to meet that would give you a greater comfort on the timing of the Shepard start up?

BRIAN VAASJO: So there's…when we look at that issue of, as we've said over the last number of months that, and as you've reiterated, looking for the Shepard start up. I mean, the concrete date is when it actually reaches commercial operations, which is targeted for early next year. But, as we go through the time period from now to then, depending on where it is in construction, we'll continually consider at what point it might be appropriate to A) recommend something to the Board and, secondly, the Board to approve it. So there's still a little bit of process left in going forward but, we are getting much more comfortable, obviously, with the completion of Shepard and the fact that it'll be contributing significant amounts of contracted cash flow.

JUAN PLESSIS: Ok, that's great. Thank you very much.

OPERATOR: All right. Our next question is from Linda Ezergailis of TD Securities. Please go ahead, Linda.

LINDA EZERGAILIS: Thank you. I have a question about your Genesee coal mine agreement. In exchange for the $20 million dollars, what sort of amendments have there been other than name changes?

BRIAN VAASJO: So, Linda, when you look at that suite of agreements…so, firstly they're very old agreements so there was a few key areas that we amended, just to clarify things, make it clearer. So for example around ROFR language, et cetera. The other thing was that as we looked at the agreements we felt a little bit exposed, and not to do with Westmoreland but anyone who would be operating the mine, with the fact that under some circumstances you could actually see the mine not operating and us not being in a position to affectively do something over a couple of months period. So we were able to work with Westmoreland to tighten that up – not diminishing their rights but improving our ability to actually step in and make sure the mine continues to operate – which is our primary objective, is to ensure that the mine is operating on an on-going basis. So those are the nature of the kinds of arrangements.

Now, through the more broader process, there were other discussions…for example, it was clear in their news release that we had a ROFR on the royalty side, and so on. And, as a result of a number of components, a number of discussions we were able to receive a payment of $20 million dollars from the parties.

LINDA EZERGAILIS: So that $20 million dollars is primarily reflecting the ROFR and not any sort of increase in your ongoing operating costs?

BRIAN VAASJO: Right. In fact, to make it very clear, our economics, or our expected results, et cetera, are unchanged by the changes to the contracts.

LINDA EZERGAILIS: Ok. That's helpful. And, with respect to G4 and G5, can you comment on…and maybe this is just a follow-up to Paul's question – what the timing of in-service date for G4 and G5 might be and is that 225 MW flat for 8-years commencing the year that G4 comes into service?

BRIAN VAASJO: So, in terms of timing we will be working with ENMAX through the end of this year and into early next year to more definitely determine what dates we would see those units coming into service. As you know, we've published a range and, as yet, we haven't revisited what those particular dates would be. I think, as you recall, we've got a significant amount of time in here at the front end to continue the process of development and then put a pin in the dates. Again, probably later this year/early next year. So that's the timing around the dates. And the 225 MW is actually off the units, so it is tied in to the completion of the facilities.

LINDA EZERGAILIS: Ok, that's helpful. And your return expectations would be consistent with your prior investments? Or…?

BRIAN VAASJO: Yes.

LINDA EZERGAILIS: Ok. And would that be sufficient to proceed with a level of contracting to proceed or would you be looking for more contracts?

BRIAN VAASJO: So, we're always looking for contracts but I think we've said that even if G4 and G5 were…well, from our perspective totally merchant, we'd still continue with the project. So this is above and beyond our minimum expectations to proceed with the project.

LINDA EZERGAILIS: That's helpful. And maybe just an updated discussion around not just the timing of a dividend increase but also the use of proceeds for your strong free cash flows? Obviously, depending on when G4 and G5 spending ramps up, you might have a little bit of cash in your pocket. Can you comment on acquisitions versus share buy-backs versus other uses of those funds or would you be comfortable just deleveraging your balance sheet to, kind of, provide some ammunition in your pocket in case other opportunities come up?

BRIAN VAASJO: So I'll speak to the acquisitions side and let Stuart speak to the balance. From an acquisitions standpoint, whether we've got cash or what the state of our balance sheet is, doesn't drive whether or not we would be acquiring assets or not. That's driven, I think, as you know, based on stand alone analysis as to whether or not an acquisition provides shareholder value or not. In the shorter timeframe and probably into the medium time frame, don't see a lot of acquisition activity. Again, from the standpoint of competitive capital with the strong financial players, aggressive financial players in the acquisition of contracted assets, we're not competitive. So, don't really figure acquisition is going to play into our allocation of capital decisions for the next couple of years.

STUART LEE: And, to the extent…as you mentioned, Linda, we do have very strong cash flow and to the extent that there aren't opportunities to put those back into development projects or acquisitions I think we would look strongly at both share buybacks and deleveraging, both, in conjunction with each other. Maintaining, I think, the strong type of balance sheet that we currently have but clearly an opportunity to use that cash flow to look at things like share buybacks as well as some debt reduction.

LINDA EZERGAILIS: Great. Thank you.

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

ANDREW KUSKE: Thank you. Good morning. Just in your presentation, where you discuss the expectation for lower realized prices out of Clover Bar and the unhedged position on that facility, if you could just give us a bit more colour and commentary on the Alberta power market and what you are really seeing with the evolution of that market, if demand continues to increase? A lot of Clover Bar is really…because, you know, you get a benefit out of a high vol in that market or outages and so we really haven't seen a tremendous amount of that this year. Is that what's really predicating the lower realizations on that facility in your expectations?

STUART LEE: Yes, again, I think our expectations are fairly consistent with what you're seeing in the forward markets as far as pricing. And the forward pricing is a reflection of a fact that we don't expect to see the types of volatility in prices given the additional supply that came back into the market with the return of the Sundance units last year, as well as the expectation that Shepard will be online full time next year and we'll start to commission later this year. So, based on that, I think a view that we'll see softer prices as we get to the back end of 2014 and to 2015.

But, again, our medium to long-term view of the Alberta market is very bullish, given the fact that it is the highest growth market in North America and, as we look out past Shepard, there's no other major announced projects other than some co-gen facilities coming into the market over the next 5 or 6 years. And, particularly with the back stop of the coal retirements towards the end of the decade, you know, a great place to continue to invest.

ANDREW KUSKE: So, just as an addendum to the first question – do you see the way you've approached Shepard and G4 and 5, from a development basis with a partner and with contracts, as that's the most, sort of, de-risked way of developing multi-billion dollar projects in that market?

BRIAN VAASJO: So, Andrew, when we entered Shepard, the Shepard project, I mean there was certainly a couple of attributes there. One is you have a merchant position in what we see as the best market in North America. In addition to that a very efficient facility, fits into the dispatch protocol very well, from our perspective. So there's a lot of dynamics around that facility.

Having a 20-year contract associated with half of the output; again, certainly we want to balance off the merchant capabilities, or capacity, with having that contracted cash flow. So it ends up being an excellent match from a number of standpoints. And, as we've said a number of times, ENMAX has been an excellent partner and, certainly, their execution on Shepard has been very good.

When we scroll forward to Genesee 4 and 5 – likewise, an excellent opportunity and certainly, we've got a bit of a proven record of working well and them working well with us, with ENMAX. And the same dynamics are in effect: A) certainly enjoy having the merchant capacity in the market, but also having a significant component of contracted just makes the project that much more appealing. So, overall, from our strategic perspective, it's an excellent fit.

Now, when you look at the size of the projects themselves, you take, $1.8 billion, $900 million or $800 million, a partner – depending on how you look at it, that's a good size of investment for Capital Power. 100% of those projects would be probably significant exposure from us and would certainly find that the $8 to $900 million much more palatable. So from many perspectives it's a very good fit.

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

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

MATTHEW AKMAN: Thank you very much. Just going back to G4 and 5 – the 225 MW. I'm just wondering if that could grow if it's confirmed that both projects will go forward, sort of, by the end of the decade?

BRIAN VAASJO: So, actually, Matthew, the math behind that is that is simply half of our capacity on whichever configuration there ends up being. So, we range depending on our selection of technology, upwards of 1,050. Potentially could go to 1,100, could be down to 1,000. So, whatever our capacity is, that PPA or that tolling agreement is for half. So that's how that might move.

MATTHEW AKMAN: Yeah, that's what I was thinking because it felt like, half of one but not half of both.

BRIAN VAASJO: No, that's half of both because, generally, it's a 1,000 MW.

MATTHEW AKMAN: Oh, sorry. Yeah, ok. So you guys get…I thought you meant half of the whole thing. So, to go back to my question then, is that you guys wouldn't necessarily want to hedge more than half of your net capacity?

BRIAN VAASJO: Well, that's true too. From having that merchant…as we, and I think as a general perception, the Alberta market should be enjoying quite high prices post…well, certainly post-2020.

MATTHEW AKMAN: Ok, thanks for that. On the G1 temporary outage, have you guys had a look at G2 as to whether it could have the same issue?

BRIAN VAASJO: So, we have looked at G2 and we believe we are in good shape there. Don't believe the same issue, there was stress on the unit at a point in time historically and it, as a result of what was a bit of a design flaw with that particular unit, made the problem a little bit worse. So that's what caused it and us having to go in and repair the valve. Again, don't expect to see that problem on G2.

MATTHEW AKMAN: Ok, and, finally, on K3 – TransAlta is obviously the operator of that plant and, to the extent that it's de-rated here, is there the same impact on them as you guys or do they take more of the impact because they are the operator? So, said another way, are all cost and lost revenues shared 50/50 on that de-rate?

BRIAN VAASJO: Yes.

MATTHEW AKMAN: Ok, thank you. Those were my questions.

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

BEN PHAM: Ok, thank you. Just staying on Genesee 4 and 5 – you talked about the return expectations not changing. Can you remind us what your Alberta power price assumptions are for the economics there?

BRIAN VAASJO: We actually, Ben, don't disclose our forward view on prices.

BEN PHAM: Ok. So, if the forward strip now – I think, 2017 looks like it's $60 bucks, which is a pretty nice pop from the year before. So, I mean, $60 dollars in the front and…is that enough for you guys to actually sanction the project?

BRIAN VAASJO: So, Ben, the way that we look at it is that, there needs to be visibility upon completion of prices that over the cycle of the project would deliver, returns as we've discussed in the past —we've seen in the later part of this decade and into the next decade. And, again, caused by supply and demand fundamentals, for the prices to be there to stimulate new build projects. So, the kind of price that you would need to see, from a visibility standpoint, certainly would be in the $70 to $80-type dollar range.

BEN PHAM: Ok, so if it takes, you know, 3 years to build and the 2018 strip is $60 then you would probably be more inclined to keep pushing the dates up until you see $70 bucks in the front end?

BRIAN VAASJO: A lot would depend on the steepness of the curve, and a number of other factors. Some of it would be contractual, based on what we're seeing from equipment suppliers, et cetera. So there's a number of factors that go into that decision and certainly anticipated pool prices is a very significant one but there are other factors as well.

BEN PHAM: Ok. And then just lastly – just to key in Linda's question about the Genesee coal agreement there. I think in your AIF you indicated that you were looking at the ROFR agreement to potentially purchase the remaining balance. So can you just walk through your thought process on why you didn't exercise that, your ROFR agreement?

BRIAN VAASJO: So that related to the actual royalties associated with the mine. So these are royalties held by previously Prairie Mines now held by, basically, a financial investor. And, as we were going through the process, and we hadn't gotten all the way through the process, let me put it that way; we concluded that on balance probably not our best interest to pursue those assets.

BEN PHAM: Ok, got it. Thanks guys. That's it for me.

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

ROBERT KWAN: Good morning. Just first on hedging. So, with Joffre – or, a portion of Joffre and the uncontracted part of Shepard in, kind of, the baseload total number. Just wondering…I know you don't necessarily colour code the contracts but as you go forward, will we only see contracted amounts related to those two plants in there if you've hedged the underlying gas or are you comfortable hedging the power and not the gas component?

STUART LEE: So, if we hedge the power, Robert, you'll see it in the numerator. Typically speaking, if we do hedge the power, we'd look to lock in the gas as well.

ROBERT KWAN: Ok.

STUART LEE: …as well.

ROBERT KWAN: Oh, sorry. Go ahead.

STUART LEE: Nope, that was it.

ROBERT KWAN: Ok. And given obviously those are gas-fired plants and, therefore, you are basically hedging sparks spread, how are you going to change the disclosure or whether you will with respect to contracted prices to reflect what really is a contracted margin?

STUART LEE: I'm not sure that we'll change the disclosure. I think you'll see consistently trying to look at what we consider the baseload and to the extent that we might try and lock in some margin associated with the gas facilities over and above that. If we effectively have contracted the, or locked in, the power from those, it's been typically fairly limited times where we've done that. And, so, I wouldn't expect that we'd change our disclosure associated with that at this point.

ROBERT KWAN: Ok, maybe to just finish on that, just so I'm clear. So it almost sounds like while you're including the unhedged capacity, it's not that likely that you're going to necessarily hedge it? Is that what you're trying to say, Stuart?

STUART LEE: So, on Joffre? So, just to be clear…

ROBERT KWAN: …or the uncontracted part of Shepard.

STUART LEE: So, the uncontracted part of Shepard we would include. But if you're talking about Clover Bar, for instance, or the merchant piece of Joffre that typically is dispatched more as a peaking capacity, typically we wouldn't disclose hedge positions on that because, typically, we leave it open. But to the extent that we have hedges associated with Shepard or to the extent we have with Joffre, which is generally associated with the co-gen piece, that would be included in the numbers.

ROBERT KWAN: Ok. Just switching gears – with the significant reduction we've seen in the power price in Alberta, I'm just wondering how much of that you see as being seasonal or structural with the availability, or…? Ultimately, the question is around with the MSA allegations that have been out there, have you noticed changes in the bidding behaviour of market participants and, maybe looking out a little bit further – have you also seen industrial demand for hedging, people moving to the sidelines waiting to see how all of this plays out?

BRIAN VAASJO: So, from a pricing standpoint, I think as Stuart said, we somewhat see prices very similar to the forward curve in the medium term.

In terms of industrial appetite for hedging or buying their power forward at this point, typically the first quarter is a slow quarter in any event. That tends to be an activity that's more active in the latter half of the year. Or particularly driven by people's budgeting processes. So typically not a lot of that activity in the front part of the year in any event.

In respect of activity in the market and what we see as people, different players. And, again, recognizing you can't identify which player is who. But, don't really see any changes in market dynamics through this year.

ROBERT KWAN: Sorry, when you say…but, just in terms of what you've seen or what your trade desk has seen in the last little bit, that the bidding behaviour hasn't really changed? People haven't been more conservative?

BRIAN VAASJO: No. Not that we've seen.

ROBERT KWAN: Ok. Just last question – any updated thoughts on the CASA regulations?

BRIAN VAASJO: No, that continues to be quiet at this point. It's in, it's with the group of— in the Board of CASA, in the working groups preparing a report for government.

ROBERT KWAN: Ok, and do you have any—what's the expectation at this point as to when we might actually see those regulations come in force?

BRIAN VAASJO: Actually, that's very difficult to assess. It just ultimately ends up in the government's hands.

ROBERT KWAN: Ok. Do you think it's a 2014 thing, or?

BRIAN VAASJO: We would hope so.

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

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

PAUL LECHEM: Thanks. Hi. Just to follow up on the emissions costs and the comments, Stuart, that I think you made around your views on where carbon costs go in the province. I was just wondering a few things. First of all, if costs do rise on $C0_2$ – costs do rise to $20 to $25/tonne, on your agreements, first, with ENMAX do you have a pass through of those costs that you contract—the amount that you contract to them, is that a pass through to ENMAX on both Shepard and G4 and G5?

BRIAN VAASJO: Yes they are.

PAUL LECHEM: Ok. What's your view if the emissions costs go up from $15 to $20 to $25, what's your view on the impact to power prices? Should power prices go up the same amount or would it be some blended amount because not all plants are impacted to the same degree by the emissions cost?

BRIAN VAASJO: So, your latter observation is bang on in terms of it doesn't impact on everybody precisely the same. It ends up being a variable cost for varying degrees for different players. Our, sort of, rule of thumb is probably 40% of that is recoverable through higher power prices.

PAUL LECHEM: Ok. And in that scenario then does that influence your view in terms of what other facilities can be built in Alberta? I mean, you have your Halkirk Wind farm, which, actually, should benefit quite nicely if power prices go up and there are no emissions from Halkirk. I mean, are you looking for further wind development in the province or, how should we think about the emissions costs impacting your view of development?

BRIAN VAASJO: Well, certainly, we are a little bit technology-agnostic so, if wind became economic in the province to build without subsidy, we would certainly look to continue to build wind farms. At this point we don't see it in the medium term but, certainly, through the transition from one decade to the other and into the next decade, in all likelihood there would be strong economics for building wind in the province.

PAUL LECHEM: Ok. All right. Thank you.

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

RANDY MAH: All right, thanks Matthew. Before we wrap up I would like to announce that Capital Power will be hosting a plant tour of the Shepard Energy Centre in Calgary on the morning of Thursday, July 10th during the week of the Calgary Stampede. This invitation is open to both the sell side and buy side analyst community. I will be sending out an email invitation next month but if you're interesting in attending please contact me. 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's first quarter 2014 conference call. Thank you for your participation and have a great day.

[TRANSMISSION CONCLUDED]