Capital Power
Second Quarter 2016 Conference Call
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Conference Call Participants

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Ben Pham
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FirstEnergy Capital

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OPERATOR: Welcome to Capital Power's second quarter 2016 results conference call. At this time all participants are in listen-only mode. Following the presentation, the conference call will be opened for questions. This call is being recorded today, July 25, 2016. I will now turn the call over to Mr. Randy Mah, Senior Manager, Investor Relations. Please go ahead.

RANDY MAH: Good morning and thank you for joining us today to review Capital Power's second quarter 2016 results, which were released earlier this morning. The financial results and the presentation slides for this conference call are posted on our website at capitalpower.com. We will start the call with opening comments from Brian Vaasjo, President and CEO, and Bryan DeNeve, 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 materials 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, 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 standardized meanings described by GAAP and therefore are unlikely to be comparable to similar measures used by other enterprises. Reconciliations of these non-GAAP financial measures can be found in the Second Quarter 2016 MD&A.

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

BRIAN VAASJO: Thanks Randy. I'll start off with a quick review of our highlights for the second quarter. Capital Power delivered strong financial performance in the second quarter that exceeded Management's expectations. This included achieving normalized earnings per share of $0.30 and generating $106 million in funds from operations. Bryan will provide more details in his financial review.

We continue to be engaged with the Alberta government to ensure fair compensation is received for the accelerated closure of coal-fired units by 2030 under their Climate Leadership Plan. The discussions with the Coal Facilitator are ongoing. We expect the Alberta government to provide more details on the implementation of the Climate Leadership Plan in the third and fourth quarters of this year.

Turning to Slide 5, Capital Power's Board of Directors has approved a $0.10 per share increase in the annual dividend. Effective with the third quarter 2016 dividend, the quarterly dividend will increase 6.8% to $0.39 or $1.56 per share on an annual basis. This represents the third consecutive $0.10 per share annual increase. The annualized dividend has now grown 24% since 2013. Our current projected cash flows support the annual dividend growth guidance of 7% that we discussed at our Investor Day last December.

Moving to Slide 6, this slide summarizes the plant availability operating performance of our plants for the second quarter of 2016 compared to the same period a year ago. We had a strong operational performance in the second quarter with average plant availability of 90%, unchanged compared to the second quarter of 2015. We completed a major scheduled outage at Genesee 2 which reduced overall plant availability. The Genesee 2 planned outage was completed in a shorter timeframe and with lower costs than anticipated. At Joffre, we had reduced availability of 55% due to the planned and unplanned outages. We also saw improved performance at Shepard this quarter of 82% compared to 73% in the second quarter of 2015.

I'll now turn the call over to Bryan DeNeve.

BRYAN DENEVE: Thanks Brian. Starting on Slide 7, I would like to review our second quarter financial performance.

We generated $106 million in funds from operations and normalized earnings per share of $0.30, both of which were better than our expectations. Due to excess supply, low natural gas prices and conservative offer strategies from market participants, Alberta power prices in the second quarter averaged $15 a megawatt hour compared to $57 a megawatt hour in the second quarter of 2015. Despite the 74% year-over-year decline in average power prices, our trading desk captured a 307% higher realized average price of $61 a megawatt hour on our Alberta commercial assets versus the average spot price.

We continue to see significant value from portfolio optimization activities as illustrated on Slide 8. The chart shows the strong track record of performance from our trading desk. The orange line in the chart represents Capital Power's realized price on our Alberta baseload assets for managing our exposure to commodity risk and reducing volatility. As you can see, Capital Power's average realized price on its baseload facilities has exceeded the spot price by 10% on average since the Company's inception seven years ago. So, we continue to see consistent material value creation from our portfolio optimization activities.

Turning to Slide 9, I'll review our second quarter financial results compared to the second quarter of 2015. Revenues were $229 million, up 176% from second quarter 2015, primarily due to strong portfolio optimization revenues. The portfolio was fully hedged which contributed to a realized price of $61 a megawatt hour compared to an average realized price of $46 in the second quarter of last year. Adjusted EBITDA before unrealized changes in fair values was $123 million, up 31% from the second quarter of 2015, primarily due to strong portfolio optimization performance.

Normalized earnings per share of $0.30 increased 200% compared to $0.10 a year ago. As mentioned, we generated funds from operations of $106 million in the second quarter, which is up 51% on a year-over-year basis.

Turning to Slide 10, I'll quickly cover our financial results for the first half of 2016 compared to the same period in 2015. Overall, the financial results in the first half of the year show improvement across all measures. Revenues were $570 million, up 29% year-over-year, primarily due to unrealized changes in fair value of market commodity derivatives and emission credits.

Adjusted EBITDA before unrealized changes in fair values was $251 million, up 20% from a year ago due to higher EBITDA contributions from the Alberta commercial plants and portfolio optimization segment, and a full quarter from K2 Wind that began commercial operations in late May 2015.

Normalized earnings per share were $0.63 on a year-to-date basis in 2016, up 58% compared to $0.40 a year ago. Funds from operations were $215 million for the first half of 2016 which is up 21% on a year-over-year basis.

I'll conclude my comments with a review of our Alberta commercial hedging profile on Slide 11. The termination of our buyer role under the Sundance C PPA combined with additional sales in the forward market has significantly increased our baseload hedging profile since 2015 year end. The table in the slide shows a quarter-over-quarter comparison from Q1 2016. For 2017, there were no changes and we continue to be fully hedged at an average contracted price in the mid-$40 per megawatt hour range.

In 2018, we have increased our hedges to 54% from 50% at an average contracted price in the low $50 a megawatt hour, and for 2019, we have increased our hedges to 44% compared to 34% last quarter at an average contracted price in the low $50 per megawatt hour.

In summary, our baseload merchant exposure is fully hedged for this year and for 2017, and we continue to make progress in reducing our merchant exposure in 2018 and 2019.

I'll now turn the call back to Brian Vaasjo.

BRIAN VAASJO: Thanks Bryan. The charts on Slide 12 show our operational and financial results for the first half of this year versus the 2016 annual targets. In the first six months, average plant availability was 93% compared to our 94% target. Our sustaining CapEx was $33 million versus the $65 million annual target. We reported $108 million in plant operating and maintenance expenses versus the $200 million to $220 million target. Finally, we have generated $218 million in funds from operations in the first half of the year versus the $380 million to $430 million annual target.

Overall, we are on track to meet our 2016 annual operating and financial targets.

Turning to Slide 13, we have two development and construction growth targets in 2016. For the Genesee 4 and 5 project, the construction may proceed once there is clarity on the impact of decisions from the Climate Leadership Plan and the resulting impacts have been assessed. Genesee 4 and 5 is also dependent on receiving adequate price signals from the energy-only market. As previously mentioned, we have restructured the construction execution of the Genesee 4 and 5 project which has delayed the decision point for proceeding to the fourth quarter of 2016.

On Slide 14, we have growth targets outside of Alberta which involves executing a contract for the output of new development. As announced in the first quarter, this was achieved with our Bloom Wind project. Bloom Wind has a 10-year fixed price contract covering 100% of the output. Construction of the project is expected to start in the third quarter of this year with commercial operations targeted one year later. In addition to Bloom Wind, we are actively bidding into RFPs for other U.S. projects.

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

RANDY MAH: Thanks Brian. Operator, we're ready for the question and answer session.

OPERATOR: We will now begin the question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question today is from Linda Ezergailis of TD Securities. Please go ahead.

LINDA EZERGAILIS: Thank you. Congratulations on a strong quarter. I'm wondering—and I realize there's probably some competitive sensitivities, but I'm wondering if you could perhaps describe kind of the nature of the optimization leading to the outperformance, whether those factors continue to be in play for the beginning part of Q3, and how that might look going forward in terms of variability.

BRYAN DENEVE: The performance in Q2, a lot of that is driven by our view of where fundamental power prices will settle in the province relative to where they're trading on a forward basis. As we look forward to Q3 and the balance of the year, we continue to see opportunities that we're looking to execute on, however, part of the outcome will depend on where prices ultimately settle.

LINDA EZERGAILIS: Okay. That's helpful context. Then maybe on an operational note, your faster turnaround at G2, can you describe maybe how much below budget it was, how much faster it was than planned, the nature of that kind of surprise benefit that you realized in that turnaround and might it be applied to other outages going forward, or is there something unique that was there?

BRYAN DENEVE: Well, one of the elements on the Genesee 2 planned outage was the impact of low pool prices, so under the Power Purchase Arrangement we make availability incentive payments while the plant's out, so the low pool price environment was beneficial relative to what we had budgeted from that perspective. But in addition, the Company was able to materially reduce the expenditures during the outage and also shorten the outage duration by about 2.5 days. So, it was all those factors combined.

On a go-forward basis, our Operations side of the Company is looking to continually update and optimize around those planned outages.

LINDA EZERGAILIS: Thank you. I'm just wondering with the renewable energy plan, the recommendations to the AESO, or by the AESO to the government have not been made public, but has the government shared anything with industry stakeholders, and have they given you anything in terms of updated timing or any context around even maybe when this CCR regulation consultation might begin?
BRIAN VAASJO: There's various rumours and comments moving around industry. The AESO, it has been confirmed, has made its recommendation to government. The government has been on a schedule of making their decision in that area public near the end of the summer, whether that's late August or early September, so we do expect decisions to be forthcoming from that perspective, or at least if it results in next steps, at least know where those would be, but do expect again decisions.

When it comes to setting carbon standards that has been a little bit less clear in terms of timing and direction, and really don't have any new information from that perspective.

LINDA EZERGAILIS: Thank you.

OPERATOR: The next question today is from Rob Hope of Scotiabank. Please go ahead.

ROB HOPE: Thank you. Thanks for taking my question. Just on the same topic, regarding your conversations with the government, can you comment on the type of discussions you're having with the Facilitator? Is it a two-way discussion, or is the Facilitator mainly searching for information requests at this point?

BRIAN VAASJO: It's certainly a combination of both. The government is looking for information, or the Facilitator and the Coal Secretariat are looking for information that's particular to the various units that are involved and positioning of the companies. On the other hand, certainly the discussions that we've had with the Facilitator have been two-way in terms of hearing some of the views of the Facilitator and the Secretariat and what the final product would be looking like, so it has been definitely a two-way dialogue.

ROB HOPE: All right, thank you for that colour. Maybe just as a follow-up, are you having discussions with the ministry or the government outside of the path through the Facilitator?

BRIAN VAASJO: No. We are in contact with the government on a number of other files so we do connect with the government fairly frequently, but part of the understanding is, is that the discussions that are taking place with the Facilitator are relatively self-contained so there's an effort by industry to not engage the decision makers at this point in time.

ROB HOPE: All right, that's helpful. Thank you.

OPERATOR: The next question is from David Quezada of Raymond James. Please go ahead.

DAVID QUEZADA: Thanks. Good morning guys. Maybe just a high level kind of strategic question. I know you guys have a lot of, or it seems like a fair number of attractive opportunities in the U.S. and I realize that this event is probably somewhat unlikely, but in the event that you didn't go ahead with G4 and 5, have you kind of done any work on how you would adjust your strategy there?

BRIAN VAASJO: Obviously we keep that in mind, and I think as we've described before, we've got a number of opportunities in the U.S. and we're actually developing opportunities right now in Ontario to respond to the next two calls in Ontario. So, in the event that Genesee 4 and 5 didn't proceed, actually what it translates into for the Company is more capital to spend outside of Alberta. So we are prepared to continue to ramp up those activities and still be able to deploy significant amounts of capital in totally contracted projects, again, outside of Alberta.

DAVID QUEZADA: Okay, great. That's helpful, thank you. Then maybe just a broader industry question. There have been reports out of Germany, I believe Germany is about a third renewable power and they're having to spend money to keep coal-fired plants online and have, I guess, phased out some of the open-ended subsidies that they had for renewable power. Do you see any similarities between where Alberta could be headed under the Climate Leadership Plan and where Germany is now, and how that might affect things?

BRIAN VAASJO: Yes, I think part of the situation in Germany is a little bit of whipsawing in terms of bouncing from different fuel types to different fuel types quite rapidly and in response to other events taking place. I think that's quite a bit different than Alberta in that the level of aggressiveness that Germany was taking versus Alberta is quite different as well, so I think what we have in front of us is Climate Leadership Plan as it relates to power generation that is aggressive yet definitely doable and I think that's the exercise that the government's going through now, and as we've said fairly openly, if they implement in the directions that they seem to be moving, ie RECS for renewables matching roughly coal retirements with the bringing in of renewables and avoiding oversupply, and of course compensation which suggests a reasonable level of risk for investors in Alberta, the Climate Leadership Plan can definitely be implemented in a very reasonable way without there being significant cost to consumers and with very positive environmental outcomes. So, it's all capable of being implemented properly without any substantive disconnects in the marketplace.

DAVID QUEZADA: Okay, great. That's very helpful. Thank you. That's all I had.

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

ANDREW KUSKE: Thank you. Good morning. I guess the question's just around the negotiations when you're entering into more duration for contracts and new contracts, looking out on the next few years. Has there been any fundamental change in buyer behaviour, or just the nature of the conversations, given some of the uncertainty that exists just from a regulatory standpoint in Alberta?

BRIAN VAASJO: In Alberta there certainly is a different tone in terms of where industrials tend to be at this point in time. The uncertainty that they face has been very similar to the uncertainty we face in terms of where power prices are going, carbon tax and so on, and of course you're in an environment today of very low power prices so there's a number of things that have kept the, I'll call it the industrial and C&I side probably a little bit slower than you'd otherwise like to see.

ANDREW KUSKE: In the event that we actually saw more robust power pricing environment, would you anticipate greater ease in effectively lifting the forward numbers higher on a percentage basis, and thereby having more stability in your book?

BRIAN VAASJO: Yes. We'd see greater opportunity for longer term contracts with the industrials.

ANDREW KUSKE: Then one final question, just on the dividend increase. So, it's meaningful on a per share basis, small on a total cost to the overall organization. How do you think about just that dividend as really low-cost but a meaningful return to shareholders and then comparing that versus capital deployment opportunities and building new things?

BRIAN VAASJO: Well, I think just, as you've commented in terms of the our view of these dividend increases as we go forward relative to our free cash flow is relatively modest and certainly don't see it in any way, shape or form precluding what we can do in terms of a growth perspective, but I think as we've said a number of times we see dividend growth as being a very significant component of increasing shareholder value and we'll be continuing on that path.

ANDREW KUSKE: Okay, that's great. Thank you.

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

BEN PHAM: Okay. Thanks. Good morning everybody. I wanted to go back to the question on the quarter and the portfolio optimization and the revenue generation that you've booked there for the quarter, the good result there. I'm just wondering are you able to perhaps break out in terms of the magnitude year-over-year, the benefit on your physical book on the hedges versus perhaps the Sundance being short on that coming into the quarter?

BRYAN DENEVE: We look at our Alberta Commercial portfolio sort of as in one entire portfolio and our decisions are always interrelated. So, certainly with the Sundance PPA moving back to the Balancing Pool, that had a change. It shifted our overall position but certainly we continue to look at optimizing from that perspective forward. So we don't delineate, necessarily, the Sundance C effect separately from what we're doing in the rest of our portfolio. I guess the short answer, Ben, is no, we don't break that out separately.

BEN PHAM: Okay. Maybe perhaps can you comment on your sensitivity to pricing? Is it still every million in EBITDA is about a dollar?

BRYAN DENEVE: Yes. So certainly when you look over the medium term, that sensitivity to movement in forward prices is less without the Sundance C length in our portfolio. But also, in addition to that, the fact that we've entered into a lot of forward sales over the first half of 2016, obviously that's also dramatically reduced our sensitivity to power prices in Alberta.

BEN PHAM: Okay, thanks for that. Wanted to switch over to more a follow-up on the consultations that you're having on the stranded costs. I'm wondering, is there any progress on whether there's any sort of agreement on how you and perhaps the government may be looking to calculate the book value.

BRIAN VAASJO: Well, I mean there's sort of ongoing discussions on all fronts and to get into the particulars would not be appropriate at this point, but I think it's safe to say we continue to be optimistic with the outcome. Nothing's happened that would shake our optimism as to where the government would and should end up.

BEN PHAM: Okay. Thanks Brian. Thanks everybody.

OPERATOR: The next question is from Paul Lechem of CIBC World Markets. Please go ahead.

PAUL LECHEM: Thank you. Good morning. Just curious about your contracted prices for 2018 and 2019, on your current hedge position; it's in the low $50s for both those years. I'm just wondering how you think about that given the introduction of the carbon tax in 2018, and is the low $50s sufficient enough for you to be able to recover all your costs and actually make a profit on your commercial coal units at that point? I would have thought that you'd need actually a bit of a higher price come 2018, especially given on the commercial position you'll be paying the carbon tax at that point.

BRYAN DENEVE: In terms of the carbon tax, in the case of Genesee 1 and Genesee 2, that's an obligation that flows through to the Buyer, so the Balancing Pool. Our obligation then is limited to our interests on Keephills 3 and Genesee 3.

When we look at forward prices in Alberta, it's anticipated that those forward prices build in the impact the carbon tax will have on power prices in the Alberta market. So, as you can see on Slide 11 that we walked through, forward prices in 2018 are currently $47, in 2019 $52, so certainly an increase over what we're seeing for forward prices in 2017. We see that as a combination of two things, Paul. One is the fact that the impact of carbon prices will start to be reflected in bidding behaviour, but also tightening in the Alberta market that will result in higher prices.

For us, when we look at the overall profitability of our units with the higher—at Keephills 3 and Genesee 3, we do want to keep in mind the fact that we have a large inventory of GHG offsets that we put together and procured over time, and certainly we've been able to procure those offsets at prices a lot, materially below where we see the carbon tax or carbon price sitting in 2018 and 2019.

PAUL LECHEM: I've got you. What's your view, come 2018 there are other units in the market which will become merchant. What's your view of competitors potentially shutting down coal facilities for economic reasons? Maybe not regulatory reasons, but given current forward prices of 46 bucks it might not be sufficient to recover, fully recover costs. Do you have a view on other retirements that might be happening in the market at that point time?

BRYAN DENEVE: We look at what we've seen happen in other older coal-fired units in the Alberta market that have become merchant; so the recent examples would be the Battle River 3 and Battle River 4 units. We have seen quite a material change in how those units are offered into the market and their operational profile, so when we look at other units that have the PPAs ending we would expect probably similar changes to occur.

PAUL LECHEM: Okay. Last question. The bidding behaviour of the Balancing Pool, do you expect them just to continue bidding in capacity on the PPAs somewhat indiscriminately through the balance of the year, or do you anticipate any change in their actual dispatch behaviour?

BRYAN DENEVE: When we look at the PPAs that are held by the Balancing Pool, our expectations are that some of those PPAs, the Balancing Pool will make the decision to terminate the PPA. So, economically they—to make a payment for the termination, in which case those PPAs will go back to the original owners. Once it's in the hands of the original owners we expect that there'll be different economic decisions and bidding decisions made for those units.

PAUL LECHEM: Do you have any sense of when they might make those decisions?

BRYAN DENEVE: No, not at this point.

PAUL LECHEM: But you might expect it to happen sometime this year?

BRYAN DENEVE: Potentially later this year, early next year.

PAUL LECHEM: All right. Thanks Bryan.

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

ROBERT KWAN: Good morning. You spoke about bidding on RFPs in the U.S. and then referenced further on the call Ontario. I'm just wondering outside of kind of greenfield growth can you just comment on what you're seeing in the M&A market? We've seen pretty good valuations for renewables and contracted. Are you seeing any opportunities to acquire and with those high valuations are you actually looking at divesting anything?

BRIAN VAASJO: In terms of what we're seeing out there, there are a number of groups of assets and single assets that have come on and are coming in—we anticipate coming on to the market that are substantially contracted in nature, and certainly a lot of them have a significant amount of appeal to us. On the other hand, we find our cost of capital a bit of a challenge to compete. There's a lot of financial players in the market who, with different strategies, have effectively a significantly lower cost of capital and are able to certainly outbid us.

So, again, we look at a number of them, don't pursue them very far simply because of, again, cost of capital out there for, again, pristine projects is pretty darned low.

On the other hand, there are from time to time opportunities that come by that are potentially a little bit different in nature, may have risks that we can manage whereas others might not that somewhat level the playing field a little bit. So, there are some opportunities out there, and again, we look at a couple but certainly not the large number of opportunities that are out there today.

ROBERT KWAN: I guess just with what seems like cost of capital shootouts for high quality contracted assets, would you be looking to divest anything into those valuations?

BRIAN VAASJO: No. No, because we don't see that necessarily some of those valuations would necessarily drop and, A), don't have current significant need for capital, and at points in time as we've demonstrated in the past, when we are looking at large levels of capital investment, we'll look at as part of the decision on capital allocation whether or not it's appropriate or not to divest of an asset.

ROBERT KWAN: Understood. If I can just ask some questions here on your hedges. First just specific on the quarter, were there any hedges that were set to expire in future quarters that you monetized or settled and brought the gain back into this quarter?

BRYAN DENEVE: No.

ROBERT KWAN: Okay. Then as you look out to 2017, you've got 100% hedged for baseload. Are there any other Alberta hedges that you have not allocated to the baseload plants?

BRYAN DENEVE: Yes. The 100% is the percentage at length from our baseload plants that we've sold forward. You're correct that there's other forward sales that we have done that would be, you could match up against our non-baseload facilities.

ROBERT KWAN: Okay. Maybe specifically just with the hedges that would have been—and I know you don't colour-code them, but let's for argument's sake say as allocated to the Sun C PPA—would those then get reflected in a number that's greater than 100% in terms of the baseload, or does that essentially just migrate over to the trading book?

BRYAN DENEVE: Yes. Effectively when the Sundance C PPA moved back, what that did was removed or reduced the amount of baseload length we had. So, effectively, it would increase that percentage sold forward as a total number.

ROBERT KWAN: Okay. Then I guess the last question is, you look out to 2018/2019, the hedges are up a bit, and I'm just wondering is that because of any generation assumptions going down or is it just that you're seeing good value in the forward prices that you locked in?

BRYAN DENEVE: Yes. That's all due to forward sales that we've entered into that we felt were, as you characterized it, good value relative to where we think the actual power prices will settle in Alberta.

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

OPERATOR: The next question is from Patrick Kenny of National Bank Financial. Please go ahead.

PATRICK KENNY: Good morning. Just on G4 and 5, with the decision point in Q4, if for some reason they don't get full clarity on the CLP by year end, can you remind us if there is flexibility within the contract to continue pushing out the FID date without seeing too much change on the capital cost front?

BRIAN VAASJO: Yes. There continues to be flexibility on moving out the date. Where we're losing flexibility is on the completion date. We've sort of pushed, compressed the front end pretty close to as far as we can go, again without having a shift in the back end.

In terms of cost, there ends up being modest escalation in the contract with Mitsubishi, so—and again, not, not significant.

PATRICK KENNY: Okay. So just to be clear, on the in-service date, in order to reach 2020 in-service date, when does the final FID date have to be reached by?

BRIAN VAASJO: Without any significant further work, our expectation is, is that's around the fourth quarter of this year.

PATRICK KENNY: Okay. Then maybe just back on Ben's question related to the Sundance PPA termination. In the contingent liability section, does that estimated loss of $13 million include any benefit that's been accrued by your trading desk here since March 24?

BRYAN DENEVE: Yes. That number, what it reflects is if the effective date of the termination or us pushing back the PPA, if that got delayed out past the end of the second quarter, that would be the projected impact on our financial results. The bulk of that of course is related to Q2.

PATRICK KENNY: Okay, but again, does that include any benefit from your trading desk within Q2?

BRYAN DENEVE: No.

PATRICK KENNY: Okay. Thanks, that's all I had guys.

OPERATOR: The next question is from Steven Paget of FirstEnergy Capital. Please go ahead.

STEVEN PAGET: Good morning and thank you. My first question is on Shepard. Do you have a target availability rate on Shepard, and is the Operator liable to pay you penalties if that target is not met?

BRYAN DENEVE: There is definitely a target availability number that's consistent for a new large-scale combined cycle unit, and in terms of our offtake agreement with Enmax, there are targets and incentives built in.

STEVEN PAGET: Thank you. My second question is on Genesee 1 and 2. On a directional basis, what do you expect free cash flows from these facilities to look like post the expiry of the PPA in 2020?

BRYAN DENEVE: The revenue we currently receive under the Genesee 1 and 2 PPA is roughly $37 a megawatt hour, so when we look at post 2020 once the PPA expires, we'll be selling that output into the Alberta merchant market and we're seeing forward prices in that, for that year in the $60 to $61 range. So, we definitely foresee a material increase in the revenue from the Genesee 1 and 2 units. Now, part of that will be offset by the fact that at that point we also take on the obligation of the carbon tax, so that will partially offset that revenue increase.

STEVEN PAGET: But even with the carbon tax you expect higher cash flows.

BRYAN DENEVE: That's correct.

STEVEN PAGET: Thank you. Those are my questions.

OPERATOR: As a reminder, if you have a question please press star, then one. The next question is from Jeremy Rosenfield of Industrial Alliance Securities. Please go ahead.

JEREMY ROSENFIELD: Thanks. Good morning. Let me brief. Just a couple of questions. First on the hedging—and I'm thinking here more about gas hedging than on the power side of things—have you been able to take advantage of the low gas prices in the market to lock in any life for longer periods of time, maybe to coincide with some of the hedging you're doing on the power side?

BRYAN DENEVE: Yes. We look at—for our gas-fired units and length for those units which would include Clover Bar and Shepard, we're looking at hedging both the power component as well as the natural gas purchases, and part of the lift we've seen this year is due to the ability of the desk to optimize around natural gas.

JEREMY ROSENFIELD: Okay, great. Then just a follow-up on sort of the capital allocation discussion. Since you renewed, the NCIB hasn't been used; I'm just wondering if there is any particular reason or if you do expect that you will employ the NCIB, depending on where the stock price is, as you move through the year.

BRYAN DENEVE: As we've communicated in the past, our priority for capital allocation is towards growth opportunities, so the fact that we are now moving forward with the Bloom project, that's our prime location for our capital, and also, as we look forward and see some of these questions get answered on the Climate Leadership Plan and the prospect of G4 and 5 moving ahead, that also will be driving a need for capital. So, given that growth that's underway, at this point we don't anticipate any purchases under the NCIB.

JEREMY ROSENFIELD: Okay. Great. Thanks for the clarity. That's it.

OPERATOR: This concludes the question and answer session. I would now like to turn the call back over to Mr. Randy Mah for closing remarks.

RANDY MAH: Okay. Thank you for joining today and for your interest in Capital Power. Have a good day everyone.

OPERATOR: This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.