Capital Power – 2018 Investor Day
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Corporate Participants
Randy Mah – Director, Investor Relations
Brian Vaasjo – President & CEO
Darcy Trufyn – SVP of Operations, Construction & Engineering
Mark Zimmerman – SVP of Corporate Development & Commercial Services
Bryan DeNeve – Senior VP of Finance & CFO
Kate Chisholm – SVP and Chief Legal & Sustainability Officer

Event Participants
Andrew Kuske – Credit Suisse
Mark Jarvi – CIBC Capital Markets
Patrick Kenny – National Bank Financial
Robert Hope – Scotiabank
Robert Kwan – RBC Capital Markets
John Mould – TD Securities
Ben Pham – BMO Capital Markets
Jeremy Rosenfield – Industrial Alliance Securities

Presentation
Randy Mah
So good morning, everyone. My name is Randy Mah. I'm the Director of Investor Relations for Capital Power. Thank you for joining us today for our 10th Annual Investor Day event here in Toronto. The event is also being webcast, so I would like to welcome our listeners on the webcast. The theme of this year's Investor Day is delivering a sustainable future. We issued a news release earlier this morning that contains some of the highlights that will be discussed today, including our financial and operating targets for 2019 and extension of our 7% annual dividend guidance out to 2021.

Before we begin, let me cover off the standard disclaimer regarding forward-looking information. Certain information in today's presentation and responses to questions contain forward-looking information. I ask that you refer to the forward-looking information disclaimer at the end of the presentation as well as our disclosure documents filed on SEDAR for further information on the material factors and risks that could cause actual results to differ.

With that out of the way, let me introduce Capital Power's management team that will be presenting today. We have Brian Vaasjo, President and CEO; and for the first time here at Investor Day, in her recently appointed position as Chief Sustainability Officer, Kate Chisholm. Kate has been with the company since our inception in 2009; Bryan DeNeve, Senior Vice President, Finance and CFO; Darcy Trufyn, Senior Vice President, Operations, Engineering and Construction; Mark Zimmerman, Senior Vice President, Corporate Development and Commercial Services. The management team also consists of Jacquie Pylypiuk, Vice President, Human Resources.

So, this is the agenda for today. We'll kick things off with a short video, and then we'll start with presentations by Brian, Darcy, Mark, and then we'll take a mid-morning break. After the break, we'll hear from Bryan DeNeve, Kate and conclude with Brian Vaasjo. We'll then have time to respond to your questions afterwards and, hopefully, you can join us for lunch. Okay, let's play the video.

[Video]

Brian Vaasjo
Good morning, and welcome. Welcome to Capital Power's 10th Investor Day. I hope you enjoyed our short video. After 10 years, we thought we change it up a little bit. From a more serious perspective though, his messages are on the mark, as is how our strategy fits the current and future realities of our business. We continue to challenge our strategy and tactics every year, and we have confirmed our direction and we've confirmed that it creates shareholder value. Capital Power has stayed the course, stuck to what we know well. In fact, we execute better and better every year.

Our last major shifts in tactics took place approximately 5 years ago, which is also when we commenced increasing the dividend at 7% per year. Certainly, Alberta has dominated our discussions over the past few years, and in part, as a result, we believe our share price is still a little bit undervalued. Despite Alberta, we've done very well over the past 5 years. We've delivered an AFFO per share growth of over 14% and annual dividend increases of 7% year-after-year. We've been delivering on what we say we're going to do. So why are the last 5 years so important? The reason we delivered in 2018, 2017 and earlier are the same reasons we'll deliver in 2019 and thereafter. The presentation this morning will show you how come, and we'll confirm those principles. Our strong conviction is demonstrated by the extension of our 7% dividend guidance out to 2021.

Potential investors and a number of you have asked me from time to time, how should investors think about Capital Power? At the 60,000-foot level, Capital Power is a growth-oriented North American power producer, who is delivering on both short- and long-term sustainable value for shareholders. And how should investors think about the nature of Capital Power? Capital Power is credible, competent, creative and competitive. Pretty straightforward and substantially the same answers I'd have given you last year. Capital Power continues to be on the same track we've been on for a number of years.

Of course, we can only create shareholder value if our direction is consistent with and is complemented -- or complimentary to industry trends. Our short video alluded to and my introduction to last year's Investor Day described in detail how our strategy and tactics align with the electrification of the economy, extensive penetration of renewables and the long-term need for reliable, affordable natural gas generation. You'll hear a little bit more about that today. Our alignment with industry trends positions us very well for long-term delivery of shareholder value.

Our focus has been and will continue to be increasing AFFO per share, in part, through investing and developing and building renewable generation. As well, we are continuing to pursue natural gas assets, primarily through acquisition. A major driver is to increase our contracted EBITDA to both increasing the long-term stability of cash flows and to provide a base for maintaining and increasing dividends. These are the same focus areas we've been discussing with you over the last number of years. One area we've been commenting on over the last few years is our geographic diversification. This is primarily captured as a percentage of Alberta EBITDA.

Looking at the last 5 years, how have we done. Our AFFO per share has grown at a compound annual rate of 14%. The points on this map are the assets we have added over the past 5 years, which are the same ones depicted on the video. We've doubled our wind facilities, including the 2 in construction that will be completed near the end of 2019. We've actually quadrupled our natural gas generation by adding 5 facilities. Our longer-term vision of developing regions, where we have a concentration of natural gas assets, is working. We now have beachheads in the U.S. Southeast market as well as Desert Southwest. We've added assets in Ontario, where we already had a significant wind interest. Our view of M&A activities in development potential would suggest significant further growth for Capital Power in these regions. As these concentrations of assets develop, we should realize additional efficiencies. Over the 5 years, we've moved our contracted EBITDA from 58% to 82%. And we've decreased our Alberta EBITDA from 76% to 56% of the total.

As we look to 2019, we will continue to deliver in the same way. Our 2019 AFFO per share is 22%. The two wind farms in construction in 2019 are on track to be on time and on budget. We expect to move forward on one or two more wind farms in 2019. The points on this map are the development sites we currently have. There continues to be a very active natural gas M&A market. So, we see some additions to our fleet in 2019. Our portion of contracted EBITDA dropped slightly to 77%, primarily because of the stronger merchant EBITDA coming out of Alberta. The stronger Alberta merchant EBITDA is also impacting on the portion of Alberta EBITDA with a modest decrease to 55%. We are excited about our position in Alberta. The power market is back to appropriate price levels. Market demand continues to increase, and our assets are performing very well. We have increased our optionality around our coal plants, and we continue to have opportunities in Genesee 4 and 5. We are also developing a peaking facility through 2019. I would be remiss if I didn't mention what underlies these results and expectations, very strong operations. It's the backbone of what we do, and although I've not highlighted it today, we never forget it. With that, over to Darcy Trufyn.

Darcy Trufyn
Well thank you Brian, and good morning. Today, I'll provide an overview of how we are continuing to drive operations excellence, then I'll talk about the success we're having on growth, and lastly, I'll update you on the progress at Genesee on our transition to natural gas. Many of you have been at Investor Day over the years and know of our optimization and reliability programs and how they have helped maximize the value of our assets -- existing assets. High availability

and reliability is who we are at Capital Power. And as we move forward to a new market design in Alberta and as we grow our footprint across North America, we know this philosophy will continue to be of benefit to Capital Power. You can see from the graph that this -- that our availability over the past 5 years has continued to trend extremely positively and is in excess of 96% again this year. Our proactive maintenance approach has helped reduce the unplanned and costly outages and has substantially lowered our risks. Safety and production do go hand-in-hand with each other and Capital Power has again been recognized by the Canadian Electrical Association with President's award for safety excellence.

On the plants that we've acquired over the past two years, we are very pleased that following integration, Operations can say that these assets have met or exceeded our expectations. The major assets have been well maintained and the surprises have been few. And while these assets are well run, we know there are good opportunities at these facilities from an operations and engineering perspective to add value and reduce operational risk. Now for example, at Decatur, we have a strategy to significantly improve the plant's performance and efficiency, which will make the plants more -- make that plant even more valuable to both parties for recontracting purposes and for the plant's future.

Since our inception in 2009, Capital Power has consistently demonstrated an ability to build projects on time and under budget. Over the past 5 years, we have lead the construction of three wind farms, totaling approximately 450 megawatts, and one solar farm of 15 megawatts and have been involved with the construction of our 800-megawatt Shepard gas plant. In fact, at the end of next year, Capital Power will have constructed eight major wind farms over the past decade, totaling approximately 1,300 megawatts, and all have been or will be a success. One of the things that have contributed to the success is that we focus on continuous improvement, learnings from each successive project and challenging ourselves on how to build the next one even more cost-effectively.

Later this month, our 99-megawatt New Frontier project in North Dakota will achieve COD, another Capital Power project built on time, and we expect it to be completed under budget. And the outlook for Whitla Phase 1, a 202-megawatt plant near Medicine Hat, Alberta, is also very positive, with expected COD tracking on schedule for next December. This fall, we completed approximately 50% of the roads and also started construction of the substation and the O&M building. This prework allows us next spring to hit the project running and sets us up very well for the weather window for next year and really almost ensures a finish in that ahead of schedule. So, everything is set up very well for Whitla. And the other project that's currently under development is Cardinal Point. It's a 150-megawatt plant in Illinois. The turbines for the plant have been ordered through GE, and we will be starting construction this coming spring. And I fully expect both Whitla Phase 1 and Cardinal Point to be a success, both in terms of time, completion and hitting our budget requirements.

So, what makes us different when it comes to construction? Well, it begins with our people, the in-house expertise we have developed within Capital Power. We have the ability, for example, to estimate own cost of building a wind farm. We don't rely on contractors or OEMs or consultants to tell us how much. We can determine the costs internally. We only need external pricing to validate market conditions and local costs. Whitla Phase 1 was one of three wind farms awarded in last year's government's -- Alberta government's RFP. This was an international competition involving many developers, including major global companies. To win, we didn't compromise on our expectations. We had to be different. We had to find advantages and strategies that others didn't have, and we did that. This is the flexibility and capability I've noted on the slide. Now what did we do that's different? Well, let's just say that Capital Power is only building what we require to operate that plant effectively, nothing more. And we are driving the design and construction of Whitla not being led. We can do this because we have a very experienced team of professionals who know and understand wind. And because of our successful track record, OEMs and contractors do want to work with us. They know we do what we say, we deal with issues before they become problems and that we drive the projects through a successful and timely completion and, as a result, they provide us with very, very competitive pricing. And from an acquisition perspective, a few years ago, we made a change in how we did our due diligence on the operations side, leading the cost evaluation for the

O&M. We believe -- what we did is we put operations to lead that aspect for our due diligence, and we believe that it's really helped make us more competitive. This cost analysis that we do is supported with in-house specialists for rotating equipment, boiler work, high-pressure piping, instrumentation and controls, and water chemistry. The team's objectives are to validate the models, look for technical concerns and a also key one is look for opportunities to add value. This value-add can be done through improving performance in output, as I mentioned with Decatur, and also in spending smarter, both from an operating perspective and from a sustaining capital perspective. Given our continued growth, the importance of integrating these assets, the need for plant standardization and the opportunities for future savings from critical mass, all because of those reasons we implemented a new computer maintenance system for our plants, and this integrated system has modules for operations for supply chain and for HSE, and it really facilitates a much quicker integration and also a much more cost-effective integration.

Many of you know that Capital Power operates an energy management center that oversees the dispatch of our units. Over the next 5 quarters, we will be adding 3 more major wind farms to our fleet. So now is an opportune time to expand our center by adding a renewables operations group. The intent is to start building an internal capability firstly on the surveillance and monitoring side, but as the service agreements expire within -- over the next 5 years, we see the ops center's role expanding such that we will have much more oversight into the performance and management of these plants. We expect this will realize a material upside with at least 5% EBITDA over the current renewable returns. And we are starting to put plants in place for the coming technological changes through digitalization and artificial intelligence. Today, we're introducing technological change opportunistically. There's several examples I could provide you. But over the next few years, we see the ops center's role further expanding to include oversight of new technology, not only on renewables, but also on our thermal side, as again, we believe we'll be able to unlock hidden value in the thermal assets as technology continues to advance.

Three years ago, in response to Alberta's Climate Leadership Program, we developed a Genesee Performance Strategy, GPS, to drive CO2 intensity reductions in our core fleet. Recently, we had a Chinese delegation come and see us, and these people were traveling all over the world and their lead person noted that everywhere -- like, they've never seen anything like what we're doing at Genesee on the coal with a focused program to drive CO2 intensity. So, it's good to hear that. Units 1 and 2 intensities at Genesee have improved substantially over the last 2 years and over the next 2 years, we are doing the LP rotor changes, which will significantly, when complete, improve the CO2 intensities for those 2 units and give us the -- really the equivalent of what the supercritical units were when we first started this program. Now GPS has driven an operational change at the plants. In the past, the three KPIs that we were using to measure success were availability, output and cost. But today, a fourth measure has been added and that's the one of CO2 intensity, and it's become a fundamental performance measurement at the plants because it really does add value, and it's something we focus on each and every day.

This is the third consecutive year you're seeing this slide. The first bar in each of the five years shows the savings we initially targeted three years ago in response to Alberta's Climate Leadership Program. The second bar is either what we have achieved or what we currently are forecasting to achieve, yellow showing emissions intensity reductions and white showing coal savings. A key requirement, though, is -- for the GPS expenditures is that each project has to meet or beat our business case hurdle. The other requirement is that the changes we employ must work on both coal and gas. You can see that we have substantially beat our targets through the early years and -- but are now noting that in year five of the program, against the original target of $35 million annual savings were showing something around $32 million, and the reason for that is we don't see a payback to get that last $3 million that -- it's just too pricey. So, we backed down and are very happy, and we'll continue to look at other opportunities, but still we're very happy with the results, and it's all based on a $30 a tonne cost. So that's what those numbers are being based on. I would note, however, that the cost of GPS, the capital cost, initially, we noted, I think, last year at $50 million. We reduced that to a forecast of $35 million expenditure.

Over the past year, we have made significant progress refining the details for the fuel convergence of our three units at Genesee and working with our partner on our fourth unit at Keephills. Our proportionate cost to convert the 4 units is now approximately $85 million, and we are confident that the final conversion work inside the boilers at Genesee can be done within the planned outage durations that we currently schedule on a 2-year rotation. This is a significant improvement over the last year when we said costs would be in the $100 million range and that at 2-month conversion, outage would be required for each unit. I do want to remind you that when these units are converted, all the advantages that come with our units will be transferred. This means our high availability, the excellent maintained condition and the lowest CO2 emissions of any converted units, all of this transfers when we convert to gas.

The time line here displays a potential scenario of our fuel conversion. The new gas to the plant in 2020 is fixed. This will increase our gas capacity to Genesee from the existing 20% to 35% without making any other changes in the plant. Subject to gas and CO2 pricing, a possible scenario is noted, where we -- here, where we would begin the following year converting from coal to gas on a staged approach until all units are fully converted. So, you see this one shows a 4-year scenario of conversions. I would note that for at least two of the units, the conversion to a plant allows us to duel-fuel fire both coal and gas, and that provides us again with maximum flexibility. This is, however, just one scenario where each step represents one year. However, this can be looked at very much like an accordion where we could collapse it to as little as six months or expand it as the market dictates. If we were to compress the time lines to less than two years, obviously, that would be outside of our normal outages, and we'd have to do this on a -- and do an outage for the conversion. But again, this is very much – this is a very real scenario.

So, in summary, operations excellence continues, and we are ahead of our targets to reduce our coal CO2 intensities, and we have made very good progress transitioning these facilities to gas. On growth, Capital Power's track record of constructing new projects on time and at or under budget continuous. And on acquisitions, our plants are meeting or exceeding our performance expectations. Capital Power continues to deliver success. Thank you. And now I'll pass it over to Mike Zimmerman.

Mark Zimmerman
Thanks, Bill.

Darcy Trufyn - It's Darcy. [Laughter]

Mark Zimmerman - Okay. So, thanks, everyone. I'd also like to thank you all for coming today as well. I'll be reviewing our plan here to continue to deliver a disciplined growth well into the future. But first off, I'd like to observe -- I look around this room and all of you personally, I know, look to invest to generate the highest risk weighted return you can and at Capital Power we’re the same. I'm hoping to, today, highlight why our track record shows we have been doing that and why we believe we're trustworthy and credible stewards of your capital. We have had a disciplined approach to investing that results in sustainable investment returns, and we will continue with this approach. Today, I'll walk through how we've delivered that over the last five years, how we focus on the four core strategic areas that we have in line, and finally, illustrate the goalpost we utilize when considering these investments as evidenced by some of the cases that I'll review. By the end of my presentation, I hope you'll understand and agree on how we continue to grow our cash flows through both the development and acquisitions of contracted renewable and gas generation assets while maintaining our disciplined investment approach.

So, before we look forward, let me first reflect on our past. Over the last five years, we've been focused on deploying capital into both contracted renewable and gas generation assets. We've invested over $3 billion of capital over that period of time, a significant amount, given our relative size. This has increased our portfolio of assets by just under 3 gigawatts and increased EBITDA by more than $400 million per annum. What has drove us in that direction? First, rather than harvesting assets, we've been able to deliver sustained cash flow growth, which further supports the growing track record of dividend growth for our shareholders. During this time, wind technology improvement, combined with industry incentives, have contributed making wind generation increasingly economic and desirable. But with an increase in intermittent renewables becoming a material component of many grids, gas generation is required for the reliability in those periods when the wind isn't blowing or the sun isn't shining, and especially, flexible gas units that can respond to fluctuations in system's supply and demand balances. In addition, as gas generation efficiencies continue to improve, fuel costs are remaining low, carbon emissions are significantly better than alternatives, and as such, the gas-fired generation does become the generation of choice now and, we believe, well into the future. Indeed, we see the direction of the industry continuing this evolution. We all know that electricity underpins our economy and our standard of living. In fact, I've heard people say it's now become a necessity like food and water to us. As our industry continues to grow -- evolve, that demand will be increasingly met while also moving towards lower carbon emissions from generating power. As the trend continues, those entities with the developmental, operational and commercial expertise, will flourish. You should also note, as highlighted last year, we have limited our geographic focus to jurisdictions where we see sound fundamentals and market structures that are conducive to providing opportunities and the cash flow certainty you seek. This is intentional as we look to ensure we allocate resources to the most strategically aligned and highest risk weighted return opportunities that we can. And assessing risk weighted return requires a very focused perspective.

Now as growth has come from pulling various levers we have at our disposal, from development and acquisition activities through to operational costs, revenue optimization, and finally, prudent financing. The first activity I would like to highlight is our development expertise. Looking over the last five years, we've invested approximately $2 billion in development opportunities, resulting in more than 1 gigawatt of capacity being brought online, which has been on time and under budget. This activity has also increased the certainty of the cash flow as we have commercially underpinned these investments with contracts ranging from 10 to 20 years. As a side note, as we are close to finalizing tax equity arrangements for New Frontier, and you can look forward to hearing the details of that in the coming weeks. The delivery of this success has come from the full suite of development skills, such as prospecting, commercial structuring, building, operating and optimization service. As we reflect on each of these investments once they have been brought into service, we continue to hone this expertise through learnings and continuous improvement. In short, as market forces continue to evolve, we will continue to be adaptive, resilient and creative in order to sustain our competitive advantage.

Second activity I'll speak to is the acquisition of high-quality assets. This activity is important, as it's an essential tool at our disposal for building out sustainable businesses in each of our four focus areas. After all, we are not looking to simply acquire a collection of stand-alone assets, rather looking to develop a solid, robust and going concern business in each area. And we cannot expect to build these platforms solely by using just our development levers. Capturing and progressing competitive development opportunities successfully requires the presence in the markets where you are targeting. As such, it takes both acquisitions and development to build a business and achieve the sustained and disciplined growth lever aspired to in each of those areas. After all, it's only through the creation and build-out of such regional platforms where we can crystallize value by applying a strategic competencies, like cost and revenue optimization and achieve economies of scale. Within this context over the last five years, we've deployed more than $1.6 billion of capital through acquisitions, representing more than 1.7 gigawatts of capacity and an increased EBITDA of $175 million. And while these acquisitions have had associated contractual underpinnings of 6 to 14 years in duration, we remain highly confident in our ability to recontract, given, one, our intimate knowledge of the market fundamentals, the offtake relationships we have and the high quality of the assets we own. Specifically, in each of these markets, we see robust demand growth, old generation retirements and our assets, which are placed very well on the dispatch curve, in the markets that they serve. These will all be competitive with other alternatives and/or are connected to adjoining markets. And while we monitor closely the development of overall cost of emerging technologies, like batteries, we expect they will only supplement and not replace existing generation. As such, we expect it will continue to be a need for gas-fired generation to provide grid reliability well into the future. With respect to some updates on a few of these acquisitions, we do continue to work commercially to enter into or renew existing contracts. As many of you know, we just closed our Arlington acquisition last week and are close to finalizing contractual tolling arrangements for the off-season capacity of the plant. Again, expect to hear more about that in the coming weeks. And in respect to Decatur, we still see sound fundamentals in the market and know what is -- our asset is competitively positioned. However, in cases like this, there are optimal times when the generators and off-takers can find a mutually beneficial arrangement, going too early to recontract and sometimes disproportionally reduce the value attributable to us.

So when we step back and look at the results over the last four to five years, you see that our portfolio has strategically evolved. Our technology is growing in gas and renewable generation assets, sustainable solutions for our collective energy future. Our contractual capacity has increased to more than 75%, providing greater certainty in our future returns, supporting the sustainability in our dividend growth. Our footprint has diversified into fundamentally strong markets across North America, decreasing exposure to any one market, and finally, in aggregate, we have grown the AFFO upwards of 80% over this time period. And this has enabled further investment growth through compounding free cash flow and investments.

So, given the brief review of where we have come from, let's move to reviewing the attributes of the four core areas we focus on, even though there's five in the chart. Perhaps first question is, why we have limited ourselves to these core areas and what values do they add going forward? In respect to the value being added, it really comes from three elements: first, our ability to employ our competencies and competitive advantages across fleets in markets across North America; second, to provide optionality for future growth, both through development build or further M&A consolidation; and finally, diversification or resiliency by reducing the risk of any one market disruption jeopardizing the overall health of the organization. As it relates to second element of why we would limit ourselves, it's really simple. We need to ensure we are maximizing our probability of success that will come from ensuring we are focused on all aspects in any particular market we participate in. And when I say all aspects, I mean, staying on top of evolving market fundamentals, stakeholder relations, policy initiatives, regulatory developments, customer-supplier relations, et cetera, the list goes on. So, it's really important that we're not stretching ourselves too thin by trying to be experts in all markets and all geographic regions. We need to be focused as we unfold our business.

So, let's start with our current largest footprint, Alberta. To highlight the strength of our position in Alberta: one, our fleet is young, and this is critically important because it means our fixed and variable costs are competitively placing us lower on the dispatch curve and enabling larger margins as we move forward; two, we are a competent operator, which is critically important to ensure availability so we are able to sell large volumes in the market, both in terms of energy and in the future, capacity. Our assets are strategically located, next to large transmission or load centers. And in Halkirk's case, it is an advantage that is not in the middle of other wind assets, but when wind blows in those areas, it's blowing for everyone. Therefore, it leads us to capture higher pricing. We also have the flexibility on when we convert coal to gas, which allows us to respond to commodity and carbon prices as they evolve. In other words, we can participate in economic decarbonization and sustainability that's evolving in the markets we are operating. We've also been a very active participant in the capacity market design, and we understand the nuances. This will allow us to effectively manage and optimize our fleet under the new design when it comes into effect. So, to be clear, we remain committed and confident in Alberta for the long run. We have a great position we want to maintain and, indeed, enhance, and as such, we'll pursue right opportunities under the right market conditions.

And perhaps surprisingly, market fundamentals give -- more than 50% of our results come from Alberta. Pricing has recovered over the last 12 months. However, you will see from this chart the forwards would suggest a softening going forward. We believe this is inconsistent with the fundamentals we see. One, load is increasing, and we've seen a new summer peak this past summer. We are seeing very healthy spark spreads due to low gas prices, which we expect to continue, given the abundance of gas in the Western Canadian basin and the power price being set by other fuels. Commercial optimization is returning as PPAs are returned back. And supply is compressing, as older coal facilities are coming off line and/or retiring. We would suggest a high degree of market uncertainty around the amount of REP generation, carbon tax and price uncertainty and the implications of the capacity market are all contributing to very low liquidity currently as we look out forward and, as a result, having very low bids, very low prices unfolding. As such, we also have a very low percentage of hedges in place as we look into the future as we see a more rosy picture going forward. Regardless, within this environment, Capital Power has the best fleet of assets in the province to capture the value under either market structure going forward.

So, in summary, we are active in the entire value chain in Alberta. And why is that important in terms of growth? We have experienced development, construction and operational capabilities to maintain a competitive advantage for any incremental generation. We have a long history of successful commodity risk management expertise. We have scale which brings us any advantage to optimize our position. In short, we bring synergy to the table. We have a well-established stakeholder relationship presence and have a seat at the incumbent table to comment on policy. Overall, we enjoy a wealth of advantages in Alberta that will enable our power business to prosper as we move forward.

Given the strong foundation, we look -- in Alberta, we look to replicate in other jurisdictions to increase our future growth potential and to diversify or reduce risks. In Ontario, total installed capacity is over three times the size of Alberta at approximately 41 gigawatts. But of that 41, more than 10% of the supply is declining, as more than 3 gigawatts of nuclear generation is being retired, with a further 1.7 being out of commission for refurbishment. In addition, 25 -- or, pardon me, 22% of that capacity is increased intermittent renewables, which requires flexibility for system reliability. The majority of this is currently provided by natural gas and, we believe, will continue to be the case as the economy grows. Operating and reserve requirements are already increasing as variable generation swings become material. East Windsor and York are all well positioned to provide flexibility through the energy and OR markets. We will continue to build our position here if and when right opportunities present themselves.

Moving to the U.S. We remain optimistic about the future growth in U.S. wind. When we step back and look at the U.S. market for wind, there are some major trends that we see continuing. State policies vary, but on aggregate are supportive of further renewable growth. In addition, the corporate off-take desire for renewable generation has been increasingly growing as entities like Google, Walmart and Microsoft have been leading the change to demonstrate sustainability in their own operations. They're all looking for the objects of bringing power to the business. We're seeing this trend continuing and are convinced it will remain strong, as just this year, we've seen up to 6 gigawatts of transactions come across our desk. In addition, our experience is the appetite for monetizing tax equity remains robust and, as a result, we continue to expect to build new wind facilities throughout the U.S. Midwest, where the wind resource is also the strongest in North America. Further out, we are expecting the market to be dynamic based upon a variety of factors, including load fundamentals and politics. We are well positioned to prosper in any case.

And finally, we remain optimistic about the opportunity for mid-life gas assets. As Bloomberg New Energy Finance has observed, 1/2 of the U.S. coal fleet and 1/4 of the U.S. nuclear capacity have failed to break even since 2012. And with average ages of 40 to 37 years, respectively, U.S. coal and nuclear plants were designed for a different era. Whereas gas continues to be the go-to fuel for now and, we expect, well into the future, as it provides system reliability with some reduced emissions and at the lowest cost. As shown in the graph, coal is projected to decline, and with that decline, we see an incremental build of renewables as evidenced in the green and yellow, and gas, as it's evidenced in the blue, each by about 200 megawatts as we move into the future -- or, pardon me, 200 gigawatts, a significant amount of generation that is required to meet the declining coal generation and the growing demand. While we're seeing a resurgence in -- growth in the U.S. South as the manufacturing base returns and a declining supply from retirements, it all bodes well for our existing assets. As an example, in the Decatur service area, up to 7 gigawatts of coal-fired capacity is at least 50 years old and close to the end of their useful life. In addition, there will also be 2 gigawatts of existing contractual capacity expiring between 2022 and 2026. Given the desirable operating attributes of the facility, it sets the stage for successful recontracting discussions. And in the Southwest, a rapidly increasing population in the Phoenix area is fueling the increasing demand that is outstripping the U.S. average. Plus, like other areas in the U.S., there are also seeking significant coal retirements, which makes reliable gas again, units like Arlington, key assets in the region. Accordingly, we see a continuing role in our core focus areas for gas-fired generation remaining essential for baseload due to retirements and reliability and integration with renewables. Because of these dynamics, as we continue to evaluate additional opportunities to supplement and build our position in these areas in order to achieve further optimization and economies of scale for the entire platform.

So, given the foregoing commentary, we see great opportunity going forward in Ontario, the U.S. Midwest for winds and the U.S. South for gas. Both in these markets and with the competencies, we can bring to bear. In other words, we bring in number of capabilities that the competition we go up against quite often do not present. Specifically, we have delivered on developmental skills being on time, on budget. We have the resources in the field that can prospect. We are confident operators across multiple fuel sources and technologies. We hedge and get commercial support behind our projects. We know how to secure tax equity and sustain REC management, and we continually commercially optimize our assets individually and collectively. In short, it's these capabilities which allow us to overcome our cost of capital disadvantage in certain desirable situations.

So now let's look forward. To begin with, we maintain a number of development sites, which, when added up, present a very significant 6 gigawatts size. However, as with all development sites, some will move forward and some will not. These are options for us and there's a hit rate that we need to be cognizant of. For us, the key is managing the costs of maintaining the sites while ensuring we have a robust set of opportunities to enable pursuit should market conditions evolve. And on that point, we will also see -- we have maintained baseload and peaking gas-fired sites and wind sites in Alberta. Again, to be clear, we are committed and confident in Alberta for the long term. We have a suite of assets and skills that give us a desirable competitive position. While we have not aggressively pursued any development opportunities in Alberta over the last few years other than Whitla, it was due to market conditions only. If the right conditions evolve in the future, we will evaluate Alberta investment opportunities, which may be either contract or merchant or both and consider those that will deliver on our strategic goals. As it relates to the non-Alberta development sites, we have sites in different regions and technologies. And depending on how political and regional policies unfold like RECs and PTCs, how fundamentals evolve, gas prices and load growth demand, shifting incumbent activity and dynamic corporate appetites from off-take. All may result in different opportunities being pursued at different times. In addition, as we build those sites, with Midwest winds being an example, we will also need to refill our pipeline of additional development opportunity. We have looked at a number of those development portfolios over the course of the last year, and we'll continue to do so going forward, with the expectation of transacting one over the next 12 to 24 months.

I mentioned I'll be considering opportunities with respect to how we deliver on our goals. To expand on that a bit, let me share how we approach our decision to invest. To begin with, we do not rely on one metric solely. Rather, we look to triangulate on what we are willing to consider and determine what type of level -- or what type and level of investments is prudent. The three considerations are: how strategically aligned is the opportunity with our aspirations; what is the appropriate return taking into consideration the risks that will be assumed; and three, what is the timing of those returns acknowledging that sooner is better than later. That's what we mean by strategically aligned. We will consider what the fuel type and technology is, what market resides in and future market fundamentals that are evident in that jurisdiction. We'll also consider the risks from operational to credit, and last, but not least, what competencies can we apply to mitigate those risks and capture opportunities. With respect to return levels, we adjust them to take into account the inherent risks and duration and measure against a risk-adjusted hurdle rate. As such, we do not generate generic hurdle rates, but at a high level take into account risk profiles like contracted versus merchant when driving a specific hurdle rate for a project.

Perhaps as a simple example of that, our recent Arlington acquisition. We took a contracted unlevered hurdle rate of around 6.5% that was weighted for the remaining contract term. We added 100 basis points spread to that for recontracting assumptions that were supported by the market fundamentals, and we added a further weighting of 300 basis point for the merchant period. And that were just some of the adjustments that we have made resulting in a blended hurdle rate of just under 8%. As we look at our projections for the facility and the expected market price that would be needed to clear and be successful at the acquisition and compare that to the hurdle, it was above that met our requirement and that met one of the elements that we've considered when making that decision in addition to it being strategically placed. And finally, in respect of timing, we look to ensure the investments will be accretive in the near term in support of our ongoing dividend, acknowledging that sooner is better than later. Overall message I want to deliver or leave you with is that it's a measured balance between all of these three factors, which leads to our disciplined approach in making prudent investment decisions.

So given the premise of the presentation, we thought we have reviewed some case studies of past investments we have made and as a proxy of what you can expect to continue doing going into the future. Specifically, I want to illustrate how we deliver value through our development and acquisition activities and how we look at potential investments. First example is the Element portfolio. We purchased that portfolio for USD $69 million, which included one operating asset Macho Springs and a suite of development sites. The main value creation points for us that we have been successful in delivering since the acquisition have been securing revenue hedge contracts in support of the build, preserving full production tax credit qualification with construction of project-specific transformers, securing tax equity partners to utilize both production tax credits. It's also a competitive advantage in renewable development, which we are then able to reply -- or, pardon me, apply and realize greater margins with each successive opportunities, all of this culminating in the aggregate opportunity to invest $500 million currently using the disciplined investment thesis I laid out earlier. In addition, we've begun to optimize operations with the development of the control center Darcy spoke to, and we're also beginning to optimize revenue by managing output across the entire platform.

Our second example is gas acquisitions. As illustrated on the slide, three main transactions have occurred over the last couple of years. We purchased a package of assets from Veresen, which included York, Windsor and two waste heat facilities in B.C. We also separately purchased Decatur and recently Arlington. All have been contracted opportunities in markets with solid long-term fundamentals and immediate AFFO accretion. The transaction numbers illustrate the initial expected return. Our performance, since acquiring, has shown that we are slightly below our expectations for York, slightly ahead for Windsor and on target for the waste heat. Overall, we are slightly ahead of expectations on the total Veresen portfolio. And finally, we are ahead on our expectations on Decatur. With respect to Arlington, we've only had it for five days. Thus far, there has been nothing to suggest our expectations will be any different since first agreeing to the acquisition. In total, we are ahead of our expectations that were developed during our due diligence on these acquisitions. And in addition, as we get into the operating and commercial management of the facility, other opportunities are arising. So, as we consider opportunities like these, there are numerous internal characteristics we will consider. Operationally, we'll look at cost synergies, maintenance optimization, long-term service arrangements versus self-manage where we can manage the risk. This is what we are doing at Decatur. Commercially, we'll look at the provision of ancillary services, fuel supply, recontracting, off-peak/off-season optimization like we're pursuing in Arlington. These sort of competencies, which allows mitigate external risks and seize opportunities, result in greater value than initially expected.

So, bringing it altogether, as we look to the future, we expect to continue these efforts. If we extrapolate into the future and register one possible scenario, by 2030, our portfolio could be 100% gas and renewables, more than 2/3 contracted, with a weighted contract life of 10 years and more, 40% of our portfolio in Alberta, delivering a 9% AFFO compounded average growth rate over that period of time. However, I indicated it's only one possible scenario. We should observe that we need to remain nimble, resilient and attentive to how the future power generation industry unfolds. I believe -- we believe there is a very bright future ahead as the industry decarbonizes while also having to replace retirements and maintain supply to serve the increasing growing demand. An incredible quantum of investment is going to be required and those that are focused, disciplined, and have a track record of delivery can win. So, in summary, and to repeat the attributes of our investment strategy, contracted wind and gas for growth, geographically diversified focus in our four core areas achieved through both development and acquisitions in a thoughtful and disciplined manner. And with that, I'll pass it back to Randy.

Randy Mah
Okay. Thanks, Mark. We'll take a short break. We'll take about a 15-minute break and start up again at 10:15.

Bryan DeNeve
Okay. I'm glad to be following Mike -- I mean, Mark. He'll be okay. Yes, so today, I'll be providing an overview of Capital Power's financial strategy, along with our guidance for 2019. Starting with, of course, the breakdown of our financial strategy, and the first component is to continue to grow the common dividend by 7% per year while maintaining an AFFO payout ratio of 45% to 55%. We believe the 7% growth is sustainable based on the returns that can be generated from reinvesting our discretionary cash flow produced by our existing portfolio in accordance with the growth strategy outlined by Mark. Given the strength of the cash flows from our existing portfolio, we are able to invest $500 million per year in growth opportunities without needing to access the equity market. I've talked to some of the bankers in the room and said if we exceed that $500 million, we will be giving them a call. Assuming our current dividend yield remains constant, management expects to generate a total shareholder return of 14% in 2019. The second component is to maintain our investment grade credit rating at BBB low. This provides the best trade-off between our cost of debt and the amount of leverage that can be used in our capital structure. It also signals the stability of our dividend to our equity investors. The third component is effective management of our financial risk. Credit facilities are typically utilized during the construction phase and then converted into long-term debt once the project reaches COD in order to manage our interest rate exposure. Our offtake agreements are primarily with investment grade counterparties, and we tend to keep a balanced book relative to our foreign exchange exposure. The fourth component is disciplined growth. As Mark walked through, our projected returns on new investments need to exceed our risk-adjusted cost of capital. So, all our investments ensure we're creating shareholder value on expected basis. Investments also need to generate sufficient return to meet our dividend growth target of 7%.

In terms of capital allocation, Capital Power is pursuing a strategy where approximately 50% of our adjusted funds from operations are allocated to common dividends and 50% to new growth projects. This creates a balanced approach where 50% of the total shareholder return is fixed year-over-year, which appeals to fixed income investors, looking for stable annual returns, while the balance is invested in growth projects where Capital Power creates additional shareholder value through the competitive advantages that have been described by Darcy and Mark. Capital Power prioritizes disciplined investment in assets over share buybacks, given the share price appreciation, which results from diversification of the portfolio and higher market capitalization. However, there are periods where there may be a gap in available growth opportunities and/or Capital Power share price is materially undervalued, in which case discretionary cash flow will be utilized to buy back shares or pay down debt if needed to maintain our investment grade credit rating.

There are two key drivers that are increasing our AFFO in 2019. The first driver is the addition of the Arlington facility and completion of the New Frontier Wind project here in December. It is important to recognize, however, that the current toll on Arlington expires at the end of 2019 and the new toll generates $40 million less AFFO in 2020. As a result, we believe the normalized AFFO, which is the far right bar, is more representative of our AFFO run rate. The second driver is the uplift in Alberta power prices continued with the very low natural gas prices, which we're experiencing in Western Canada. This is driving an increase in our AFFO of $70 million. A significant portion of this $70 million is related to our merchant gas-fired facilities, which benefit both from higher power prices and the low natural gas prices. The increase in AFFO is partially offset by the sale of our K2 Wind facility, which reduces projected AFFO in 2019 by $20 million.

So, when we look at our AFFO guidance for 2019, we're looking at a range of $460 million to $510 million, with the midpoint of $485 million. This maintains a plus/minus 5% range around the midpoint. We've also placed on here our expectations for 2018. We're projecting an AFFO to come within a range of $390 million and $410 million, with the midpoint projected to be at the top end of our original guidance for 2018 that we provided a year ago. The primary driver of the healthy returns in 2018, again, has been robust power prices in Alberta coupled with lower natural gas prices.

AFFO has increased by an average of 14% per year since 2014. With the normalization of the Arlington toll, the average is 12%, which exceeds our target AFFO per share growth of 9%. Since 2014, Capital Power has maintained the AFFO payout ratio below the top end of our target range of 55%. Discretionary cash flow in 2019 is expected to be $295 million, which will be available for equity investment in new growth opportunities.

On an AFFO-per-share basis, the growth has been 19% in 2019 relative to 2018, and it exceeds the 17% I mentioned on AFFO as a result of the share buybacks that we completed in 2018.

As Mark mentioned, the key characteristic of our asset portfolio is of significant remaining asset lives. As a result, only 3% of our assets are expected to physically retire in the next decade, which is a key contributor to the stability of our existing business and provides a significant runway to build AFFO per share prior to seeing the impact of retirements.

The other key characteristic is the average remaining life of offtake agreements on our contracted assets. Excluding G1, G2 PPA, the average contract life is currently 11 years. This is expected to be maintained through 2021, and in fact, increase with the recontracting at the Island and Decatur generation facilities.

Our growth CapEx average $500 million per year, which aligns with our expectations of $500 million of growth on a go-forward basis. The average annual EBITDA growth since 2012 has been $70 million per year, which exceeds the amount required to sustain our 7% dividend growth.

Capital Power has increased its dividend by 7% for five consecutive years, and I'm pleased to advise that we have achieved the growth necessary to extend the guidance for the 7% growth through 2021. Capital Power last provided dividend guidance in July 2017 as part of our quarterly earnings release. Since that time, we have crystallized growth with the addition of contracted cash flow with the New Frontier, Whitla 1 and Cardinal Point Wind projects. These projects will be financed without needing to dilute the shareholder base and are expected to generate AFFO of $37 million, which is a 9% increase in AFFO per share, which supports that extension of the dividend guidance. In addition, the ability to increase the dividend in 2021 is supported by our assessment of the financial contribution from our existing business, which will be sufficiently stable to ensure that we'll remain within our target AFFO payout ratio under a range of commodity and political scenarios. If we achieve the target of $500 million growth in 2019, we'll then be well positioned to extend our dividend guidance further into 2022.

The $500 million in growth can be achieved without needing to access the equity market. Based on the economics of our recent gas acquisitions, this results in an 8% increase in AFFO per share, which exceeds our 7% dividend growth target. Combined with ongoing optimization of our assets, we anticipate an annual increase in AFFO per share of 9% per year over the long term.

This table summarizes our cash flow and financing outlook in 2019. Two additional sources of cash are the proceeds from the sale of our interest in K2 Wind and bond issuances of approximately $650 million in 2019. The cash will be used to repay debt on our credit facilities and continue with construction at Whitla and Cardinal Point. Our target growth CapEx will be funded initially through our credit facilities, which will then, ultimately, be converted into long-term debt.

This table summarizes our current position on our Alberta baseload merchant assets, which is comprised of 700 megawatts through 2020, increasing to 1,500 megawatts with the expiry of the G1, G2 PPA in 2021. Baseload output is 73% hedged in 2019 at an average price of low $50 per megawatt hour. The hedge percentage in 2020 remains low and is largely driven by our view that power prices will settle materially higher than the current forward prices as explained by Mark. It is important to note that these hedge percentages are applicable to our baseload facilities, which do not include our peaking gas and wind facilities in Alberta. One trend we're seeing in Alberta, given the low natural gas prices and high carbon taxes are much higher utilization of our gas-peaking assets at Clover Bar and Joffre.

The next slide is a summary of our projections of our key credit metrics relative to the targets articulated by S&P and DBRS. We manage our capital structure to ensure we continue to have some cushion over the target metrics. Two additional metrics that have been outlined by S&P is average remaining contract term and percentage of EBITDA under a long-term contract. S&P's expectation is that average remaining contract term will remain above 10 years. In terms of the percentage of EBITDA under long-term contract, their target is a minimum of 67%. We are positioned to exceed both of these targets as we move forward.

I wanted to just briefly touch on modeling guidance for New Frontier, and primarily just because there has been a shift in terms of the profile. So, with the reduction in the U.S. corporate tax rates, what we've seen is that the crystallization of the production tax credits, which front-loads the EBITDA is -- the slope is lower than it was when we gave guidance around Bloom.

So, dividend yield, we believe Capital Power continues to be undervalued based on our 6.5% dividend yield. As shown in this graph, our historical dividend yield prior to the significant changes in Alberta government policy in the fall of 2015 averaged 5.5% despite our portfolio having a significantly higher portion of merchant EBITDA. We believe a dividend yield of 5.5% is more appropriate once the remaining uncertainty in the Alberta market is resolved. Although it can be argued that our dividend yield should increase with rising interest rates, we believe this should be offset by the reduced commodity risk and greater diversification of the Capital Power portfolio.

So just in summary, key takeaways. Growth in AFFO per share has and will continue to support the 7% annual dividend growth. Our financial capacity in 2019 is $500 million, without having to access the equity market. In addition to hedges on 700 megawatts of baseload generation, we have the ability to capture upside from higher Alberta power prices and price volatility from 340 megawatts of peaking gas and 150 megawatts of wind. And finally, our share price growth is expected to be driven by 7% dividend growth, further improvement in Alberta's certainty and diversification. So now I'll turn it over back to Brian for -- or no, sorry, over to Kate to speak to the sustainability.

Kate Chisholm
I got excited. I thought he was letting me off the hook there for a moment. Good morning, everyone. I'm here this morning to tell you a little bit about what Capital Power has been doing and is planning to do regarding sustainability. Our desire to provide you with more information in this regard stems from 3 basic things: firstly, of course, the advent of responsible investing has given rise to new ESG scorecards being used by ISS and other watchdogs. Second, the view of climate change is posing an existential risk, and in particular, for energy companies is now more prevalent than ever so that, for example, S&P recently announced that it's incorporating ESG factors now into its rating considerations.

Third, and perhaps most importantly, we realized as an executive team that, like many other energy companies, we need to be more transparent with regard to our significant achievements and opportunities in the area of sustainability, especially given the aforementioned increasing interest.

We need you to understand that sustainability is not new at Capital Power. On the environmental or “E” side of the ESG equation, it's always been a primary focus for us. For example, when we applied for Genesee 3's operating permit years and years ago, we volunteered to have it financially comply down to the carbon emissions level of a combined cycle natural gas unit. We did this in spite of the facts that it was already going to be the cleanest coal unit in North America and doing so wasn't by any means required for legal compliance at the time. We did it in order to better position G3 to succeed in a lower carbon world. Then, we did it again with Keephills 3. Over the last few years, we've been consciously diversifying our portfolio away from coal as demonstrated on this slide. Indeed, we anticipate a further reduction in emissions of about 43% when we convert our coal units to gas. In addition, by 2019, we would have reduced our fleet emission intensity by 25% by executing on our strategy to concentrate on gas and renewables and by optimizing the operations of our current assets to decrease their emissions. Basically, we've been working on technical, process and social innovations for more than a decade, specifically to de-risk Capital Power's future. And now I want to answer the obvious next question regarding increasing our natural gas fleet.

At some point in the last few years, there was a shift in popular focus away from reducing emissions from every source towards just getting off of fossil fuels altogether. This is very unfortunate because it ignores a number of entirely valid potential decarbonization solutions and ignores a great deal of very good work being done by energy companies on the carbon reduction side. One important example of this carbon reduction work is in the general area of carbon capture. In the last decade, Capital Power has conducted 4 different carbon capture and storage projects on our coal units. Although, unfortunately, they all proved to be technically feasible, they would have also been uneconomic in Alberta's merchant market given low natural gas prices. Of course, this unfavorable economic comparison doesn't apply when the CCS is attached to natural gas. So, we're continuing to work on possibilities for carbon capture and storage on gas. One thing that excites me even more though is the new work we and others are doing on carbon capture and usage because turning captured carbon into a solid with tangible value makes the economics of carbon capture and usage on gas even more attractive.

Capital Power's new project, C2CNT, converts captured carbon into carbon nanotubes, which are stronger than steel, lighter than aluminum and more conductive than copper, and therefore, have a wide range of uses in construction and public infrastructure. I encourage you all to wander around in Google for carbon capture and usage. There are some uber-cool and currently viable possibilities being advanced, and they all speak to natural gas as not being nearly a transition fuel. For example, there's a hotel in Downtown Vancouver, which is currently capturing carbon from its exhaust fans and creating a sodium bicarbonate or baking soda from the carbon. There are a lot of other projects that are creating plastics and other materials for construction. It's important to note that the federal government's most recent sustainable development plan and various other very well-recognized climate scenarios classify carbon capture usage and storage as the source of clean energy that may have to occupy a place in the long-term energy mix in order for Canada to meet its Paris commitments. Towards this end, similar CCUS work is being undertaken by others on upstream operations as well. By the way, beyond completion of the XPRIZE competition, our Shepard stack is also now set to provide a long-term test capture center for the Alberta Carbon Conversion Technology Center, which is funded by Alberta Economic Development and Trade and NRCan.

As you heard on the introductory video, at a high level, our strategy focuses on rendering Capital Power future ready in 2 very important ways. We're reducing emissions of our natural gas fleet via technical and process innovations. In the short term, we have Darcy's Genesee Performance Standard, which is expected to reduce Genesee's carbon emissions by 10% by next year, which reductions will survive conversion to gas. In the short-to-medium term, we'll also reduce our emissions at our coal units by a further 40% when we convert them to gas. And in the longer term, we believe carbon capture usage and storage on our natural gas facilities will ensure them a full long life even beyond 2050.

In addition, we're also employing a suite of technical process and social innovations to maintain our wind leadership. Examples include our approach to landowner engagement. In order to reduce local pushback at the development stage, we were the first developer in Canada to socialize payments so that landowners neighboring the lots on which we erect turbines also receive payments. We're also industry leaders in the safe construction of wind farms and in biodiversity protections. For instance, we proactively detune turbines during migratory periods as necessary to save bird and bat lives. Some of our competitors still don't do this and their relationships with regulators, governments, and ENGOs reflect this gap.

On the community investment side, in addition to more traditional activities, we take great pride in the fact that we actively work to make the communities in which we operate better for their inhabitants. Examples of this would include recently building a road for the good people of Southport to allow our fuel trucks to drive around town instead of right through it and to provide a second key emergency access into the city. We also initiated and provided most of the funding for a new traffic light at an intersection in the Genesee area that was causing safety concerns for our employees and other residents of the area. Along with jobs that we provide, these types of initiatives contribute to our excellent reputation for being a desirable neighbor and help us to be welcomed in every single community in which we operate. We consider this to be a great competitive advantage. In addition to being the right thing to do, they speed up our permitting time considerably as well.

Although Capital Power has complied with the GRI, or Global Reporting Initiative, ESG disclosure standard since 2007, we've done so to date in the corporate sustainability report that's released annually in July, which isn't optimal for shareholders. We'll comply with the climate change disclosure requirements established by the Task Force on Climate-related Financial Disclosure in February 2019. We expect this first attempt to be fairly qualitative, but we'll work to add more quantitative detail as public policy is clarified and technical advances are made. Furthermore, the July timing of our CSR report was originally established because we report our annual emissions to government much later than we release our annual disclosure, but we're currently in the process of changing our internal processes so that we can publish a truly fully integrated annual report for 2019.

To close, Capital Power's board and management view sustainability as a critical success factor. We've been working on it for a very long time, and as various parties, including ourselves, other large institutions and credit rating agencies press for more standardization and comparability in ESG performance disclosure among sector competitors, we believe our efforts and approach will shine through. Our shareholders will be very pleased by the outcome of such apples-to-apples comparison. Thank you.

Brian Vaasjo

Thanks, Kate. As you know every year, we provide guidance and set targets for the following year's performance. In turn, we report quarterly on our progress vis-à-vis those targets. Consistent with prior years, we set targets that, in our view, give rise to shareholder value. This year, we've streamlined them slightly as I'll explain as I go. Our operating targets are 95% availability for the fleet, which is consistent with 2018. Just to comment, Darcy had showed you a chart and talked about 96%, 96% are on the assets we operate. When we incorporate assets that others operate, it moves us down to 95%. Sustaining capital expenditure's target range for 2019 is $80 million to $90 million. As you'll see in a moment, we added adjusted EBITDA as a target, which seems to be a useful data point for our investors. In turn, we dropped operating and maintenance costs as its impacts are visible through EBITDA.

Our development and construction targets are similar with 2018, keep our construction projects on time and on budget or better. We have a committed contracted capital target of $500 million, which is the same as 2018. As Bryan demonstrated, this level of committed capital gives rise to roughly an 8% AFFO per share growth rate, which provides the basis for future annual dividend increases beyond 2021. I would also point out this level of growth does not require issuing common shares. We've eliminated the number of wind farm developments as a target as it is somewhat double counting with the investment in contracted assets.

As I mentioned earlier, we've added adjusted EBITDA as a financial target. The 2019 target is a range of $800 million to $850 million compared to our 2018 estimate of $675 million. But our key financial metric is AFFO. For 2019, our target is a range of $460 million to $510 million compared to the 2018 target of $380 million. We have also adjusted our guidance for 2018 up to the top end of the range.

So, returning to the question I posed when I got up here earlier this morning, how investors should think about Capital Power? Bluntly, it's an attractive investment opportunity. Our 2018 performance lines up very well with targets. The 2019 AFFO target reflects strong performance in growth consistent with our previous history and in support of a 14% total shareholder return. Alberta is back to being a very good market. Strong prices, the competitive positioning of our assets and continuation of great flexibility and optionality around our coal assets, all support a great Alberta outlook for Capital Power. The outlook and stability in the Alberta market and our dividend track record should contribute to dividend yield improvement. The $500 million contracted committed capital is consistent with our growth outlook. The longer-term strategy of natural gas and renewable investments in the areas we've chosen remains resilient. We have an abundance of development opportunities and the acquisition market is very active. As the presentations have demonstrated, our competencies are strong, our competitive advantages are real, our assets are very good and our strategies are resilient. We've been delivering shareholder value over the past number of years, and we are very well positioned to deliver the same value, with the same strategies in 2019 and thereafter. Thank you.

QUESTIONS AND ANSWERS

Randy Mah

All right. Thanks, Brian. We're ready to start the Q&A session. So, I ask that you use the microphone when asking your question and also to identify yourself before asking your question.

Andrew Kuske – Credit Suisse

Andrew Kuske, Crédit Suisse. To either of the Brians really, it's probably to start off with and then probably segue a little bit into Darcy. When you look at the K2 monetization, how do you think about really recycling the portfolio to surface value in the company? And then to what extent do you view yourselves as really a developer in building assets, monetizing them and then effectively driving value in the stock?

Bryan DeNeve

So, the sale of the K2 Wind, our interest in it, was a situation where one of the 1/3 partners was looking to buy out the other 1/3. For us, being a minority stakeholder in that project didn't fit with our overall strategy. So given the pricing was very attractive, we moved forward with the sale. Those funds of course will be recycled back in, as I described, in terms of capital allocation. It begs the question, I guess, do -- would we do further crystallization of value to the sale of long-term contracted assets? And the answer is, no, unless there's a unique situation like K2, and the reason being is that, that long-term contracted cash flow serves a bunch of other critical purposes for us. One is maintaining that long 10-plus year of average contracts, maintaining our overall investment-grade credit rating and also being able to sustain the 7% dividend growth. So that kind of trumps looking to crystallize through further divestitures.

Andrew Kuske

Maybe as a follow-up, is there an opportunity to ramp up the construction efforts, really build more across North America and the pipeline that you've got and then monetize their fractional interest, is there still the public-private market divide in valuations in the sector?

Bryan DeNeve

No, I think, that's a very good point. Yes, if we are fortunate to increase the pace of development, which Darcy can speak to our capabilities on that front, certainly as we go beyond sort of the $500 million and what's needed to sustain the dividend growth strategy, then we would be in a position to look at crystallizing through divestitures.

Randy Mah

Next question?

Mark Jarvi – CIBC Capital Markets

Mark Jarvi from CIBC. I wanted you guys to comment on the changes we've seen with the accelerated investment in Canada with accelerated depreciation, and maybe dovetail that in with the robustness in Alberta market and your willingness maybe to build wind outside of the RFP process?

Mark Zimmerman

We do see a lot of very interesting and potential development opportunities in Alberta. And as Brian has pointed out, we see some stability returning, some clarity returning. We will continue to advance our efforts to still try and see if we can underpin any sort of development with some contractual, commercial underpinnings. We are seeing a lot of requests coming forward for green energy, and to the extent, we can crystallize on that from the commercial industrial sector if we want to do so. We, of course, will continue to examine as well what sort of returns we may see on a merchant basis given the forward curves and how they develop. And if the conditions are right and there's an opportunity to seize and advance, we will absolutely consider that, relative to all other opportunities that we have on our plate as well. So, I wouldn't rule out that we win to win.

Mark Jarvi

And what are the changes -- recent changes around depreciation? Does that make it more...

Mark Zimmerman

It does absolutely help the economics, and what's very interesting about that is, we see the price in Alberta being set by other factors, not the implicit returns on the investments. So, it's not a cost-to-capital shootout. So those improvements on the tax side of the equation have helped to generate better margins or spreads for us on our investments.

Bryan DeNeve

The other change we've seen on renewables in Alberta is they actually generate credits now for renewable energy. So that's also improved the prospects for renewable projects in the Alberta context.

Mark Jarvi

And then just going back to your commentary on the Ontario market, you guys talking about some of the tightness that might come with the (inaudible) situation. And you said they'll be patient while we're contracting, but maybe when you think about where those contracts are set to expire versus where the tightness in the market might shape up, do you guys think you want to move on some of your Ontario assets about – work with the government on extension of your contracts before the end of term?

Mark Zimmerman
Absolutely. That's something that will remain in continual dialogue on the assets that we have here and how we might manifest the longer terms or different options as we move forward. I would observe one of the elements that we actually are quite excited about, there is a real focus in the election around cost of energy to consumers in Alberta -- or in Ontario. And I've observed that the gas plants that already exist, they're in the market that are well positioned, close to load, don't need long haul of very expensive transmission to be put into place, are very well suited to meet the increasing demand and offset the supply contraction and do so in a very economic way. We're fortunately blessed with our abundance of gas in North America, and we see that commodity price being quite low and stable for a long time to come yet, and that's going to translate into very competitive output coming from the gas plants that we have in place.

Mark Jarvi
And maybe just a follow-up. Do you see that playing out in the next 1 to 2 years? Or is that just more medium term?

Mark Zimmerman
I think it would be more medium term – we've gotten not a bad runway on the existing contracts that we have in place. I think, once you see the tightness manifesting itself in the market, that's where you may see a bit more concern in wanting to buy additional insurance, if you will, to make sure Ontario isn't subject to any blackouts, and I think along the way, we'll be demonstrating the competitiveness that we have with other alternatives, say, hydro transmission or hydro generation, very long transmission, I think, we can absolutely be competitive with them.

Randy Mah
We'll take the question in the front here.

Patrick Kenny – National Bank
Pat Kenny, National Bank. I just wanted to touch on Alberta forward power prices and get your thoughts on how much of the backwardation do you think reflects potential change in government next spring and the removal of the carbon tax? Just maybe your thoughts on how much downward pressure you see on Alberta power prices? And maybe tie that in with the offset being lower carbon tax, of course, and what impact that might have on margins?

Bryan DeNeve
So there certainly is some impact of the prospect of a change in the carbon tax and what that can do to power prices. So that is one factor. I think, though, the other thing we're seeing is there is lower liquidity in the forward market and part of that is driven by the fact that the market design is still influx and is being sorted through. So, there is -- certainly, as that certainty returns, we'd see that liquidity increase out 2, 3 years and that'll put some upward pressure on forward prices. I think when you go beyond 2021 into 2022 and further, you're going to see somewhat lower energy prices because of the expectation that part of that revenue stream is now going to go in the -- come in the form of a capacity payment.

Mark Zimmerman
If I could outline, I think you touched on a very interesting point. That lower liquidity is really causing concern out there. I think there's people that are only looking for exceptional deals that are putting a bid forward. And that's being compounded because if they wanted to get out of that position, there's not a lot of liquidity to get out. So, I think that tightness has really put some downward pressure on price.

Bryan DeNeve
I think one thing just to clarify is, if there is a change in the carbon tax, certainly, we would see lower revenues in the Alberta market, but that'll be more than offset by the cost savings we'll see on our current portfolio. So, net-net, that'll be beneficial to us as an organization.

Patrick Kenny
Great. And then maybe just a higher level without a carbon tax, just on the sustainability front, weighing the decision to convert early next decade potentially -- or staying on coal through 2030 and potentially having higher cash flows versus converting early, you might leave some cash flow on the table, but at the same time that might be accretive to your ESG reporting and potentially result in higher valuations, just how do you weigh those benefits?

Brian Vaasjo
So maybe I can comment on that. So with the, and I guess, just sort of -- we're sort of playing in the -- in kind of the same sandbox, there has been expressions by the UCP that they would potentially contemplate going back to something like SGER and that was where we were in a zone of paying tax on 12% of our carbon and paying on the carbon tax of $15. However, it was being reviewed, and yes, actually, we wouldn't expect under any circumstances in Alberta for us, not consumers, but for us, we wouldn't see a carbon price below $30. We also wouldn't see -- I mean, there, we would expect some sort of, if there was a change and moving back SGER, there would be some reduction associated with, I'll say, the number of tonnes that we'd pay our carbon tax on, but it would drop, in theory, depending on how far it goes back. It would have a significant impact as Bryan identified on our bottom line in terms of tax relief and it would be to a small degree offset by lower power prices.

So, we don't see a situation where there is no carbon tax on our output. We see that under all circumstances, there'll continue to be some. Now as we've said all along, what we're doing is we're maintaining our optionality looking at carbon prices, looking at the natural gas prices and looking at, I'll say, generally from an economic perspective. And certainly, we do and are very mindful of what is the -- are the growing sentiment in terms of carbon reduction across the spectrum, and certainly, that will play very significantly in our consideration when we believe our shareholders will benefit from conversion outside of just the economics that we would certainly be prepared to do that. But we'd have to make sure that it is in the benefit of our shareholders, and they do see that in the circumstances where they may be giving up some EBITDA, the improvement in the multiple would have to be there. So, we'd have to be pretty convinced, but certainly, our view on it extends well beyond just the simple economics.

The other thing too that does weigh on it to a degree, and you're seeing the narrative very significant in parts of Canada, and certainly, the U.S. is jobs. We convert – you're putting hundreds of people out of work immediately. So that's something that weighs on us and that's one of the considerations, but again, certainly, in terms of what can our considerations are on what would be attractive to current and future shareholders, we'd definitely consider the environmental impact as well, not just simply the economics.

Randy Mah
Next question, please?

Robert Hope – Scotiabank
Rob Hope from Scotiabank. Just taking a look at your 2019 guidance and the comments on you see power pricing above where the forward curve is right now. Just wanted to get a sense of what power pricing you're including in your guidance right now?

Bryan DeNeve
So, the guidance for 2019 would be -- reflect the -- roughly the forward prices we see for 2019. Yes, and where we see the forward prices being understated is really 2020 and beyond.

Robert Hope
Okay, that's helpful. And then just a follow-up question on the Alberta power market as well. With -- some of the headwinds that we're seeing in the energy sector as well as potentially the curtailments of the oil sands facilities into 2019, just want to get a sense of where you see demand growth and whether or not a potential reduction in demand would largely be offset by reduced behind-the-fence generation or would there be another balancing mechanism there?

Bryan DeNeve
So, as you heard, demand growth has been very strong over the last couple of years in Alberta, running 3% to 4%. It certainly has exceeded our expectations. When we look forward, we do believe that'll tail off to something more in the 2% range and kind of normalize at that level. In terms of the activity that's out there, given the cost structure of a lot of the oil sands facilities, we see production continuing from those facilities, albeit there is the production cuts that Notley just announced, but don't see that as changing on-site generation in any meaningful way. So, there is -- I think your question alludes to when we see a demand growth that starts going below the 2%, certainly it's possible, but we are seeing other things happen in the Alberta economy that is lifting in the other direction.

Robert Hope
And then just one follow-up, if I may. When do you think that you'll need additional capacity in the Alberta market beyond the RFPs that have been announced?

Bryan DeNeve
It's interesting because with the introduction of the capacity market, the timing of the need for generation is

now determined by the AESO as opposed to letting it follow a lot of competitive forces. So that remains to be seen. Certainly, under the current market structure, we would see the need for new capacity in the '23, '24 time frame.

Randy Mah
Next question?

Robert Kwan – RBC
Robert Kwan, RBC. You talked earlier about expecting a successful renegotiation of contracts when they expire. Can you just talk about how do you define success when it comes to any changes in pricing and additional contract term?

Mark Zimmerman
You hit it on the nose, Robert. There is a number of variables that are coming into play as we're considering what sort of offer would be appealing to us versus what wouldn't be. I guess, to me, success is going to be relative, looking at the options that we have available to us. Decatur would be a great example of, if we are able to achieve a good long-term contract at a reasonable price, we would be absolutely entertaining that, but that's got to be measured against the option that we have to build our power into PJM and how that may look. And frankly, whether there was any sort of C&I offtake or other consumer offtake, we'd underpin a portion of that willing into PJM that we might want to consider. So, I wouldn't want to go with hard and fast rules saying all this sort of adjustment to the current price for this term would be something that we would absolutely jump on, but rather it's got to be more relative to the other options that we have. I would say there is also an element of looking at how far out you are on the current term and whether or not you want to consider any sort of extension at the current date. I will say the general disposition thus far is the further out you are, the more of a haircut the counterparties would want to look to take given that with time itself they as well have many options. So, it's going to be a game of patience to walk through and make sure that we're able to maximize the options and the value to it.

Robert Kwan
If you look at market valuations and M&A valuations that we've seen, general thoughts that M&A sees public market values. So, winds, we've seen a number of transactions in and around 10x. We've seen some gaps as they started to approach the end of lives in 4 to 6x. How do you think then about, again, kind of throwing financial theory out of the window, but how do you think about when you go and acquire a mid-contract gas plant or approach building something like Whitla at almost 12x EBITDA?

Mark Zimmerman
So, a good question. I observed, first of all, some of those very high multiples that we're seeing seem to be attached to very clear long-term annuity strips that we're able to cut and really just applying a simple spread. What we found is the more complex the situation is, the lower multiple that's coming, and that's where it becomes interesting as given the inherent talent this organization has to mitigate some of those risks or seize opportunities. It's those more complex situations that allow us to be competitive and also crystallize value once we bring in-house. Now in respect to Whitla on the other side, there's not a lot of 20-year contracts that are being handed out these days and being attached to renewables, development, and indeed, what we're seeing in the U.S. is we're migrating to more a 10-, 12-, maximum 14-year sort of strip that can be out there. So, we've seen that as very appealing. We've seen that right in our backyard. And frankly, we've seen it as also positioning ourselves for additional developments for our bit of a beachhead that we're able to establish. Anyway, that should give us competitive advantage in the future. So net-net, I don't think you'll see us on being competitive on a straight up 20-year strip that has no construction risk as there is a ton of money out there chasing things. Where you'll see us being competitive is on those more complex situations. And I would note we have looked at a lot of opportunities over the last year. You really are only seeing us execute on one, and absolutely, stand in front of the deal flow, but again, it's a very heated market right now, and we see that continuing.

Robert Kwan
If I can just squeeze in a quick one actually for Kate. You talked about some of the work that you're doing at Shepard to reduce carbon. Whether it's that work or taking carbon completely to complete capture, how do you see that working then within the best gas framework in Alberta? Will that take you down to 0?

Kate Chisholm
It would, in fact, ultimately, take it down to 0. As you know, all of those are performance standards, and so you pay tax above the performance standard and you pay no tax below the performance standard. And so, we look forward to a time when we're not paying any carbon tax at all.

Robert Kwan

So that would take all other gas units who are not doing that into a significant carbon position?

Kate Chisholm

No. To be fair, Capital Power is not alone in working on this. There are lots and lots of energy companies that are working on carbon capture. And so, I think probably what you see is an evolution. I think this is going to be disruptive frankly. But I think that there will be a lot of natural gas units that will ultimately if they're young enough be given some capital investment that will allow them to capture carbon and be zero emitting.

Randy Mah

We'll take the question at the front here.

John Mould – TD Securities

John Mould, TD. Maybe first for Bryan DeNeve. For a project like Whitla, which has a 20-year government-backed PPA, can you just talk about your willingness or interest to consider a project level financing versus the corporate debt structure you've historically used?

Bryan DeNeve

Yes. We certainly always monitor and keep in mind the prospects of using project financing as an alternative. There's a number of considerations that go into it, including our current covenants of our existing debt and those considerations. Generally, what we find is the stand-alone rating that a project like Whitla would get is fairly close to what our overall company rating is. So, the cost of debt is very close in the two circumstances. And so generally, at this point in where we see pricing, it's more expedient for us just to do it on balance sheet.

John Mould

Okay. And then maybe for Brian Vaasjo. I think on the question of new markets, I think you've been pretty crystal-clear historically that you don't see the need to go beyond Canada and the U.S. to meet your growth strategy. A number of your peers have been active beyond Canada and the U.S. in recent years. What would cause you to reconsider that and take another look at markets beyond Canada and the U.S.?

Brian Vaasjo

So, I think the key is, from our perspective, we see that we can definitely deliver our growth aspirations. And we've been talking here about sort of 7% dividend and investing $500 million a year -- or committing $500 million a year. That's sort of our base case. I mean, we would hope to do well beyond that, and we see that the market can actually support that. So, for us, as long as this market and then the North American market can support our growth aspirations and deliver the returns that we believe our shareholders deserve, we're satisfied with being here. I think a lot of the conversation today and what we've talked to you about and shared with you is the fact that the way we differentiate for ourselves from others is a very strong depth of competencies on the natural gas side, the wind side. I would say we'd been very creative in a number of things that we have done and the pieces come together and make us very competitive and allow us to do that here in North America. I think once you go outside of North America, not only do you lose some of those advantages, but you actually end up with others around you having more advantages than you do beyond the issue of cost of capital. So, from our perspective, the risk-adjusted return for our shareholders is much better for us to be here in Canada.

And I'll just explain one -- or just give you one example of doing a couple together on the wind side. I mean, Darcy was talking about having to do things differently and some day when we explain what we've actually done around Whitla, which I think would be a surprise to a lot of people -- positive surprise as to the ingenuity and creativity that actually deliver a project that's delivering what it should in terms of result, but done again in a very creative way. But when you look at Bloom Wind, we -- for how we've structured it and what we did, a lot of that comes from a knowledge of the energy markets and that, we wouldn't have at some place else. When you look at Cardinal Point, what made that project go is we stepped into the REC market ahead of time, and we basically sold the REC output of that facility in advance of selling the commodities side. It's that kind of broad ability and ability to bring different elements into focus that allows us to be very, very competitive, and to go outside of North America, we would lose that. What we'd have, it'd be a number of years before we could recreate that in another market. And I think as you look at our peers, what you'll kind of see a little bit over time is they're a little bit nomadic. They go from one market to another to another because it becomes more competitive and the risk return profile change dramatically as those markets develop, and not so sure, we want to be chasing outside of North America almost in a continuous way. So, we're real happy to be here. We think we can compete extremely well, and we'll continue to compete extremely well in the North American market.

Randy Mah
Okay, question in the back?

Ben Pham – BMO Capital Markets
Ben Pham, BMO Capital Markets. So, I want to go back to discussion about Alberta power prices, it's some of your best commentaries that's contrary to the view that most people happen to comment on Alberta. So, on the demand side, let's put that aside, let's assume that demand into our '15, '16 levels demand did drop much more dramatic than what everyone was expecting. So this time around, if you see that, do you see more of a supply response because the Balancing Pool isn't involved in the dispatch curve anymore, and I just wanted to clarify, Brian, if SAGD plants start to wear off, do you think behind the on-site generation, they'll shut down those cogen plants? Or do you expect them to put more electricity into the market?

Bryan DeNeve
That would be SAGD plants that are retiring and coming off-line?

Ben Pham
Just a production response to the oil price where you got the steam generation, the cogen plants, I mean, some of that's being offloaded at $0 right now as you know? So, you mentioned that you didn't expect behind-the-fence to roll off. So, I just wanted to clarify if we're heading towards a recession in Alberta, do you expect those cogen plants roll off? And then just comment on the Balancing Pool, is it a different dynamic now in the supply?

Bryan DeNeve
Yes, my comment on, on-site generation was related to those facilities that continue to produce output. We wouldn't see anything really changing in terms of the economics of continuing with on-site generation. Certainly, if the -- if price destruction is such that you start seeing those facilities mothballed or shutdown, yes, you'd probably see a corresponding change in the on-site generation. I think at the end of the day, those facilities are primarily there for providing steam for that operation, and certainly, a stand-alone power plant isn't consistent with the line of business. The first part of your question in terms of supply response, we've seen a huge change, of course, in response on the supply side with the Balancing Pool terminating the PPAs. So, as you know, we've got two coal-fired facilities that are permanently retired now this year and we have two that have been mothballed. And certainly, if you saw a downturn further -- or a downturn again in the economy and perhaps demand growth flattening out, we would expect to see more facilities, particularly older coal facilities will be mothballed in response. So that dynamic will certainly take place.

Ben Pham
Obviously, it's been more efficient outlook than '15, '16. And then secondarily on the marginal costs on this thing hypothetically, you saw marginal costs come down at $20, $30 in the last '15, '16, where do you see it now going forward? Or what is the marginal cost? Is it $45 that curve looks pretty good? Or is it something lower than that where there's some residual downside?

Bryan DeNeve
Yes. And so, the key there is the carbon tax, of course, and what it does in terms of the marginal cost of operating the coal-fired facilities. Under the current carbon price regime, this is definitely north of $40 a megawatt hour. So that creates a floor. Now if we see it back off to a less strict carbon regime, yes, you'll see that number drop, but as we talked about, in our case, it'll be more than offset by our savings on our coal units. And the other thing I would mention is that in terms of changes in the carbon tax regime and maybe going to a less stringent requirement, under either of those, our coal-fired facilities because of their age and the efficiencies that Darcy's team has created, we continue to operate in the baseload fashion. So really it's the older coal units that will be affected by that change, and then how they stack up relative to what natural gas prices are doing, that really can see us swing in terms of their utilization.

Mark Zimmerman
This is fair to mention as well, Bryan, the competitive bidding situation as well. Unlike 2015, when there was a very large block of PPA volume that was being offered in the market, now with all that being turned back, I think you'll see another market participant behavior changing. So very much reduced risk that you could see a large block being bid out the way it was before.

Ben Pham
Can I finish off the dividend extension to 2021. I know that discussions about you not thinking about extending until you hear the capacity pricing visibility. So, are you pinning down capacity payment ranges much better

than before that you can extend that -- the dividend growth outlook? Just an update on that?

Bryan DeNeve
Yes. So, for the -- capacity market is -- the current target is coming into effect November 1, 2021. So, 2021 is predominantly still in the existing market design. So, when we looked at extending our dividend guidance, we were looking at volatility in commodity prices, how we typically look at it. In 2022, the design of the capacity market is, of course, a bigger consideration. It'll be in effect for the full year. We feel we have a really good read about how that capacity market will operate and -- in Alberta, given the design that the AESO has filed with the AUC for approval. So certainly, we feel comfortable in terms of what that volatility would look like, and as long as that market design is implemented as proposed by the AESO, it wouldn't be a barrier to us looking at extending dividend guidance to 2022.

Brian Vaasjo
Can I add just a comment? Although we talk about the situation where now we've got the incremental contracted cash flow that supports an increasing dividend, we don't just look at that. I mean, when we make the decision on a dividend and providing that guidance, that's over a longer-term view that takes into consideration transition into capacity market and everything else. So, our view is much, much longer than just simply 2021 or 2022, and we've got confidence in the Alberta market that it will continue to have strong returns in the longer-term out of that market, and we are also premising dividend expectations and sustainability of dividend expectations on the existing fleet of contracted assets as well. So, we look at, again, overall where do we think the business is growing, what are the risks, what are the sensitivities and on balance because we've ended up with, again, an increase in contracted cash flow that can support the dividend, we make that call. But that again is based on a lot of work to feel comfortable that the longer term is very sustainable.

Randy Mah
Question on the side?

Andrew Kuske
Andrew Kuske, Crédit Suisse. The question is for Kate. And obviously, with ESG issue, there's always a lot of focus on carbon, but could we talk a little bit about water usage and water intensity? And then as it relates to underwriting for Arlington, how did you think about just the water issues in Arizona when you underwrote Arlington? This is probably more for Bryan DeNeve.

Kate Chisholm
Or Mark?

Andrew Kuske
It's more for Mark, yes.

Mark Zimmerman
In terms of water, I mean, many of the facilities that we are running our gas plants are great consumers of water, and perhaps some of that I'll turn it over to Darcy as well. I know there's a lot of attention spent to not only source of it, how we're reclaiming it, how we're running it through the plant and being a very good stewards and the like. What's interesting the access to the water because we're buying existing facilities. Quite often, we're seeing through the due diligence that we're able to make sure that we'll have that access on a go-forward basis as well and that would not add risk in any way, shape or form to being without water, which we currently need in running these plants. I don't know, Darcy, if you...

Darcy Trufyn
Yes, I'll do that. So Arlington, actually the plant comes with a large tract of land and that land includes a number of sufficient well capacity to supply the needs and then some for the plant. And actually, I think we looked at this plant years ago, and it didn't at that time, and that was one of the changes -- physical changes. So, we're very comfortable with Arlington going forward with water supply.

Brian Vaasjo
And I think just to maybe be clear in Arizona, the issue with water rights, and in addition to the actual supply, the water rights are there to support Arlington, and in fact, that's the reason why there's 3,000 acres that go with the plant is because that's where you actually need, unless you're buying water rights, that's where you need to actually secure water rights. So, we're situated very well in Arlington in terms of the long-term water supply.

Randy Mah
Next question, please?

Mark Jarvi
Mark Jarvi from CIBC. I wanted to go back through the commentary about contracted profile and the rating agencies duration of it and the percentage contracted in terms of how that informs your view on

the buyback or that constrains you and how much more contracted would you have to get, or buffer to play with that number as you work through the contracted growth profile?

Bryan DeNeve

So, the rating agencies would be the first to say that those metrics, there's trade-offs between them. So when you look at our percentage that's under long-term contract right now, which is over -- well, 77% for 2019. With expiry of the G1, G2 PPAs will be down around the 67% to 70% range. And certainly, based on our growth projections, that'll continue to increase from there. So we see that we're in good shape relative to that metric. The 10 years is one of those ones that we do see that, of course, as each year passes that, that erodes, but then it's bolstered by what we're doing on the growth side and recontracting side. If we did find ourselves in a situation where we were maybe coming -- starting to come in below the 10 years, we would look to offset on another metric like maybe our FFO to debt would need to run at a higher rate. So certainly, we'd look at making the adjustments in order to get to a place that the rating agencies were comfortable with.

Randy Mah

Are there any further questions? Right at the front here?

Jeremy Rosenfield – Industrial Alliance

Jeremy Rosenfield with Industrial Alliance. So, a question on capital allocation and valuation and where you think you should be trading on dividend. Every company believes that their stock price is too low and it should be higher, that's technically not unique to you guys. But in terms of capital allocation to the dividend, at some point, potentially investors don't really need or maybe don't want more in terms of dividend increases and maybe there are other things that, that capital should be used for more buybacks, if there's room, or maybe more growth or more strategic growth. And so, to what degree do you consider that capital allocation decision and whether you should be even extending that dividend growth guidance beyond a certain point, maybe 2021 is a hard stop at this point. How do you consider those puts and takes?

Bryan DeNeve

So, we look at the 7% increase as our ability to create a track record and continue to prove that over time is fundamental for building investor confidence in our growth story. So at this point, we would see that as being an objective for us in the long term to continue that 7% growth. Certainly, if we were to sort of stop in 2021, it definitely would create a heavier weighting to investment in new assets and the potential for more shareholder value creation, but we look at that, as the organization then has to be sized right, then you have to look at the market opportunities, how competitive it is. Based on our current view and outlook, we feel that we're in a good spot with that $500 million being a base in that split. And again, it's -- our investors are going to have different views and how important that dividend growth is. We certainly know there is difference there, and I think that comes down a lot to the differences in what investors are looking for, but we feel the 50-50 is -- strikes a good balance for the investment base we see in Canada, which forms the majority of our shareholders.

Brian Vaasjo

I think just to add to that, as we continually look at dividends, and it isn't just as I was describing before, the long-term outlook and sort of the contracted cash flow -- new contracted cash flow to support it. We also look at what we believe our investor base is looking for and what we believe sort of where the next incremental shareholder is going to come from. And as we look at it now and have been looking at it, the value of our long, sustained, predictable dividend growth has a fair amount of value and should result in improved multiples. It just -- it should by definition. And so, well, that's our sort of the thesis that we have now and we've had for the last number of years. And -- but we're not blind to that.

We have conversations with investors. We have conversations with the investment community or in the analyst community. We've recently done a survey of both the buy and the sell side to get a sense as to where they are on those issues. So -- and it's -- as Bryan described, we have a sort of a number of different investors, who are looking at a number of different benefits associated with holding Capital Power, but also a different range of expectations and maybe biases that they'd like us to have. As we sit now, sort of, as Bryan's described, having a split between out of basically AFFO of having dividends and our cash to reinvest in the business, and as we grow, both of those should definitely increase and then having sort of a bit of a safety valve so to speak in terms of share buybacks to us right now is a reasonable balance. And as we go forward, and we assessed it when we looked at this latest guidance with a 7% dividend increase and felt that for that -- from now to 2021, that continues to be a reasonable thesis in a way to move forward. We also have to consider that in the absence of that, that would send a pretty strong signal. We also, I mean, we've -- again, we've assessed it from a number of different perspectives. And we feel comfortable that, that's a reasonable guidance at this point in time. And it's something that would be well received by our investor base.

Donald Watt

My name is Donald Watt and I'm a private investor, thank you.

Brian Vaasjo

You are very welcome. Can I add one other comment. One of the things that's also happened with our investor base and it's -- and it always moves around, but there's been a definite shift away from institutional holders and getting more on the retail side. And as we look at other organizations and so on, we suspect that over time, again, we would hope and expect that we'll get some greater concentration around the institutional side and have fewer coming in and out, but we do expect that we may well stay where we are now in terms of the non-institutional holders and that may well increase over time. And again, something like dividend tends to attract those investors as opposed to a stand-alone growth proposition.

Randy Mah

Final call, any questions? Okay, if not, I'll turn it over to Brian for closing comments.

Brian Vaasjo

Well, thanks, Randy. And as we've gone through this morning, we've talked about our level of confidence, our belief in our own competencies, and just to be clear, we didn't claim names as a competency. So, in any event, we do -- we have been delivering on shareholder value, and a lot of our conversations this morning has been why we've been delivering, what are those elements that have allowed us to deliver and how those elements continue to be there on a go-forward basis. And again, based on what we've said and the way we look at it, what we've delivered in the past, we're absolutely going to be able to deliver in the future. So, in closing, I'd like to say the best of the season to all of you, and certainly, with all the traveling that takes place, safe travels, and we'll definitely see here again next year. Thank you very much.