

Capital Power Corporation

Analyst Conference Call – Acquisition of Two New England power plants

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OPERATOR:

Welcome to Capital Power Corporation's Analyst Conference Call. At this time all participants are in listen-only mode. Following the presentation, we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. I would like to remind everyone that this conference call is being recorded on Thursday, February 17, 2011 at 7:00 am Mountain Standard Time. I will now turn the call over to Randy Mah, Senior Manager Investor Relations. Please go ahead.

RANDY MAH:

Good morning and thank you for joining us today on short notice. Earlier today, Capital Power announced its acquisition of the Tiverton and Rumford Power Plants from Brick Power Holdings LLC. The press release on this announcement is posted on our website at www.capitalpower.com. This conference call is also being webcast from our website where you can access the presentation slides for this call.

Joining me this morning is Brian Vaasjo, President and CEO; Stuart Lee, Chief Financial Officer; and Bryan DeNeve, Senior Vice President Commercial Services. In this morning's presentation, we will review the transaction, the plants, and the New England power market. Following the presentation, we will open up the lines to take your questions.

Before we begin, let me direct your attention to the cautionary statement regarding forward-looking information on slide number two. Certain information in this presentation and in responses to questions contain forward-looking information. Actual results

could differ materially from conclusions, forecasts or projections in the forward-looking information, and certain material factors or assumptions were applied in drawing conclusions or making forecasts or projections as reflected in the forward-looking information.

Please refer to the forward-looking information slides at the end of this presentation and in our February 17, 2011 press release, which contain additional information about the material factors and risks that could cause actual results to differ materially from the conclusions, forecasts or projections in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information.

I will now turn the call over to Brian for his remarks starting on slide number three.

BRIAN VAASJO:

Thanks, Randy. I'll begin my remarks by highlighting Capital Power's strengths and strategy, which underlie this transaction and prove that it's the right fit for our company. It's these strengths that are responsible for our current success and why we expect to continue to perform well in the future.

Capital Power is characterized by a strong platform for sustainable growth. Specifically we have a large, high-quality generation portfolio, a young and modern fleet, proven operating and construction history, and financial strength with continuous access to capital. We consider each of these to be integral for us to achieve our goal of tripling our size to 10,000 megawatts by 2020 on a consistently accretive basis.

The transaction is consistent with and builds upon each of these corporate strengths. It is an example of how we are building momentum towards our long-term goal with a consistent growth strategy that we have spoken to since our initial IPO (Initial Public Offering).

The two plants we are acquiring have a maximum combined capacity of 549 megawatts (MW) and are consistent with the average size of assets in our fleet. At approximately ten years old, Rumford and

Tiverton will lower the thirteen year average of our current fleet. The technology at the plants is very efficient, proven technology with which Capital Power has operating experience. The transaction exceeds our IRR target for merchant assets. And lastly, the plants are natural gas facilities which are located in our targeted US Northeastern market.

Turning to slide four, I'll provide a brief overview of the transaction. The buyer under the Share Purchase Agreement for the transaction, Capital Power LP, is a subsidiary of the company and is the legal entity that directly and indirectly holds Capital Power's assets. The purchase price for the acquisition is \$315 million US, subject to working capital and other closing adjustments. The Tiverton and Rumford facilities are natural gas-fired combined cycle merchant power plants that sell their output into the New England Power Pool. This acquisition lays the foundation for a networked hub of assets in the US northeast. For more details on the transaction, I will now turn the call over to Stuart.

STUART LEE:

Thanks Brian. On slide five I'll provide an overview of our expectations for this acquisition. The acquisition exceeds our target of 11% unlevered, after-tax IRR for merchant assets. The transaction is expected to be accretive to earnings - both immediately and over the long term. Depending on financing, we expect the acquisition to add an average of between \$0.02 and \$0.07 to earnings per share over the first two years. And we also expect the acquisition to be accretive to earnings over the life of the facilities. Earnings from these plants are expected to increase significantly with the expected recovery of power prices in the New England market, as the U.S. economy strengthens. The transaction is expected to close April 2011 subject to regulatory approvals and satisfaction of other customary closing conditions. At that time, we will provide additional financial guidance including EBITDA expectations.

I'll now turn this call over to Bryan DeNeve to tell you more about the facilities.

BRYAN DENEVE:

Thanks, Stuart. Turning to slide six. This slide includes a map of the Northeastern United States highlighting the locations of the acquired plants. Rumford Power is located in Rumford, Maine and Tiverton Power is located in Tiverton, Rhode Island.

Each plant has a nominal capacity of 265 MW and are natural-gas combined cycle units. Rumford and Tiverton have winter generation capacities of 270 MW and 279 MW, respectively, representing a combined maximum capacity of 549 MW during the winter.

Turning to slide seven. Both Tiverton and Rumford commenced commercial operations in 2000. As Brian stated, at approximately 10-years old, the plants are younger than Capital Power's current fleet of modern assets. Both facilities' design configurations utilize a single fuel GE 7FA power island. The GE technology is well proven, very efficient. The technology is similar to the technology Capital Power commissioned and operates at the Fredrickson facility in Washington State, which we manage for the Capital Power Income LP.

Moving to slide eight, I'll provide an overview of the New England power market. The Tiverton and Rumford plants supply electricity to the New England Independent System Operator. For the electric interconnection infrastructure, Tiverton is interconnected to the National Grid 115 kv transmission system while Rumford is interconnected to the Central Maine Power 115 kv transmission system. Both Tiverton and Rumford are exempt Wholesale Generators and have Federal Electric [Energy] Regulatory Commission, or FERC, authorization to sell capacity, energy, and ancillary services at market-based rates.

Turning to slide nine, this slide provides additional details on the New England Power Pool, or "NEPOOL". Tiverton and Rumford operate as mid-merit generation units and sell their outputs on an hourly basis into NEPOOL. NEPOOL is one of the most advanced and liquid markets in the United States with a peak demand of approximately 28,000 MW. NEPOOL serves six New England states: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. NEPOOL contains approximately 14 million people, over 6.5 million households and businesses, is subject to FERC jurisdiction, has more than 400 participants, has over 8,000 miles of transmission lines, and 13 interconnections to the New York and Canadian power systems. Obviously, this represents a great market, one that Capital Power is excited to enter.

I'll now turn the call back to Randy.

RANDY MAH:

Okay, thanks Bryan. Before we start the question and answer session, please note that we will be restricting the questions on this conference call solely on this transaction as we are in a quiet period before the release of our fourth quarter 2010 results on March the 8th. Okay, operator we are ready to start the question and answer session.

QUESTION AND ANSWER SESSION

OPERATOR:

Ah, yes, thank you, so for those who wish to ask a question, simply press "01". If you wish to withdraw your question, press the "#" sign.

The first question comes from Robert Kwan from RBC Capital. Please go ahead.

ROBERT KWAN:

Good morning. Just on, first on the accretion - the \$0.02 to \$0.07 - can you just talk about what some of the merchant assumptions that you've made and maybe reference that against the actual operations for 2010 and then, I guess, largely what drives the range between \$0.02 to \$0.07 in your mind?

STUART LEE:

Okay, thanks Robert. The range that we've provided is really just around financing assumptions. At the low end of that range, it's based on our theoretical capital structure, which would effectively look at 60% equity, 40% debt for a merchant facility. And at the high end of the range at \$0.07, it would effectively be using our short-term credit facilities to finance the transaction. As far as overall assumptions, the key assumptions that we've used as we look at these facilities: for Tiverton, looking at capacity factors in the mid-60's to 70% range, and Rumford in the kind of the 30% range. In addition to that availability factors in kind of the 94% range overall. And as you are aware, both these facilities are in capacity markets. Capacity pricing right now for the next three years is in the \$3 kilowatt (kW) per month range.

ROBERT KWAN:

Okay. And so the assumptions you are using, are they materially different than the actual results in 2010?

STUART LEE:

They are very consistent with the recent operating history for these facilities.

ROBERT KWAN:

Okay. And then maybe just a last on the accretion, you mentioned it's accretive to EPS (Earnings Per Share), I assume it's also accretive to FFO (Funds From Operations) per share?

STUART LEE:

It is.

ROBERT KWAN:

Okay. Just maybe the last question that I've got is there have been some transmission constraints for certain plants in Maine. Can you just give any colour as to how Rumford's positioned and then, you might as well, on Tiverton and the ability to actually move the power to all of the major hubs within NEPOOL?

BRYAN DENEVE:

So, you are correct. Rumford is in a location where it has a negative basis to mass hub. And we have taken that into account into our valuation. But we expect that some of that transmission congestion will be relieved in the future, which will enhance the performance.

ROBERT KWAN:

Okay, and then just on Tiverton?

BRYAN DENEVE:

Tiverton happens to be in a very good location near load pocket and it actually trades in the positive value relative to mass hub. And we expect that to continue in the future.

ROBERT KWAN:

Okay, perfect. Thank you very much.

OPERATOR:

The next question comes from Linda Ezergailis from TD Newcrest. Please go ahead.

LINDA EZERGAILIS:

Thank you. As you can appreciate a lot of us are focused on maintenance schedules in the power industry these days. And I'm wondering if you could provide us with a maintenance schedule for the facility prospectively over the next year in terms of outages, as well as your perception of well this facility was maintained historically.

BRYAN DENEVE:

Based on our due diligence, our conclusions were the facilities have been operated and maintained very well. I don't have the details with me in terms of the timing of maintenance outages on a go-forward basis but they're consistent with what's typical for this technology in a combined cycle facility.

LINDA EZERGAILIS:

Okay and was there any – I mean obviously you can't speak on behalf of the seller – but are you aware of why the Brick Power was selling?

BRYAN DENEVE:

Our understanding is that Brick Power had acquired these assets through the Calpine bankruptcy and never really intended to be a long-term holder of the asset, so I think they viewed it was timely to move out of the position.

LINDA EZERGAILIS:

Okay. Can you provide a heat rate for the facility or not?

BRYAN DENEVE:

Yes, the heat rate for Tiverton is close to 7000 and Rumford is slightly higher. And, Rumford is slightly higher primarily just because of more starts and stops relative to Tiverton.

LINDA EZERGAILIS:

Okay and what gas hubs should we be using when we are looking at spark spreads?

BRYAN DENEVE:

I don't have that information handy.

LINDA EZERGAILIS:

Okay. Maybe we could follow up offline?

BRYAN DENEVE:

Yup.

LINDA EZERGAILIS:

Okay, thank you.

OPERATOR:

Next question is from Michael McGowan from BMO Capital. Please go ahead.

MICHAEL MCGOWAN:

Hello, good morning. I had a question about - you mentioned historical capacity prices that these facilities have received, but can you talk at all about the spot energy prices you are assuming in your \$0.02 to \$0.07 accretion estimates?

STUART LEE:

It would be again, Mike, pretty consistent with what you see in the market today with slight recovery over the next couple of years but low \$50 per megawatt hour type of energy pricing with again small increases over the next couple of years.

MICHAEL MCGOWAN:

Okay, great and do these assets, do they have any natural gas contracts or are you buying your gas spot?

BRYAN DENEVE:

There are some natural gas contracts in place, but that will be managed through our commodity group.

MICHAEL MCGOWAN:

Okay in terms of where those contracts are, though, I guess you can't say whether or not they are below or above market?

BRYAN DENEVE:

Yeah, that's one we'll have to follow up on.

MICHAEL MCGOWAN:

Okay. And just the last question here, it looks like, I'm just wondering how the value of this transaction compares to some of the others I guess you've seen in terms of dollar per kilowatt (kW).

BRYAN DENEVE:

The recent Millford transaction traded at approximately \$630 per kW. This transaction would be approximately \$595 per kW.

MICHAEL MCGOWAN: Okay, great thank you.

OPERATOR:

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

ANDREW KUSKE:

Thank you, good morning. Just in relation to the comment that you expect the acquisition to exceed your target IRR of 11%, just sort of curious as your thoughts on the expectations for what will really drive the upper end of that range or the upper end of the 11%. Is it really a function of the value you bought it for, your pricing outlook, or some other dynamics within the market over a period of time?

BRYAN DENEVE:

It's a combination of all those factors. In terms of the acquisition price, certainly it's well below replacement cost in these markets for a new combined cycle unit, which we would see in the \$12-14 hundred per kW. So certainly the purchase price is well below that. And our view of the market in the US northeast is that it'll continue to strengthen and the prices will increase both on the energy and capacity side. And we see a lot of opportunity there in terms of that strengthening occurring quicker than anticipated if there are more retirements than we expect in our forecast or demand growth is stronger than we expect.

ANDREW KUSKE:

So when you look across the market and in particular in the US and certain pockets like New England, do you see yourselves as illustrated by this transaction as ongoing buyers of power plants well below the cost to build or well below their book value?

BRYAN DENEVE:

Yeah, we see that as continuing for a period of time. And we'll be looking to participate in those opportunities.

ANDREW KUSKE:

And then somewhat related to that is really what is Capital Power's gas market outlook in particular in the New England market at this point in time. Where do you see pricing in the near-term and then over a longer period of time?

BRYAN DENEVE:

So in the near-term we see pricing in the \$5-\$6 range and we see that recovering over the longer-term moving up towards the \$9 range in the medium-term.

ANDREW KUSKE: And the medium-term is say 3 years out?

BRYAN DENEVE:

No, I'm thinking more 10 years out.

ANDREW KUSKE:

Ten years out, okay. Okay, great thank you.

OPERATOR:

The next question is from Juan Plessis from Canaccord Genuity. Please go ahead.

JUAN PLESSIS:

Thank you very much. Just wondering if you could tell us what your longer-term plans are to finance the acquisition.

STUART LEE:

Thanks Juan. So, as I think as we discussed before, we looked at permanent finance based on our balance sheet and maintaining our credit metrics consistent with our current BBB credit rating. We do have ample room in our credit facilities to short term finance and we'll look at permanently finance in conjunction with our overall growth and balance sheet requirements.

JUAN PLESSIS:

Okay thank you. Now moving on, I wonder if you could provide a little bit of sensitivity to the EPS contribution from this acquisition to changes in the capacity price?

STUART LEE:

I don't have anything specific as far as sensitivities that I can give you right now, Juan, but as we release further financial information, it's something we can highlight and provide. Again, if you look at sensitivity, I don't expect that capacity payments, quite frankly, go any lower than where they are at today at \$3 per kW. I expect that it would probably be leveraged to recovery in both capacity payments and energy payments.

JUAN PLESSIS:

Okay, and what are you assuming longer-term for the capacity of price in that market?

BRYAN DENEVE:

So, we see the capacity price, like Stuart said, start lifting off the floor of approximately \$3 kW per month

and start moving into the \$4-\$6 range as we move out in time.

JUAN PLESSIS:

Okay, so out in time being 3-5 years or longer.

BRYAN DENEVE:

Yes, 3-5 years.

JUAN PLESSIS:

Okay, great. Thank you very much.

OPERATOR:

The following question is from Matthew Akman from MacQuarie. Please go ahead.

MATTHEW AKMAN:

Hey guys. Just a quick follow up on that last question. So the IRR calculations that you did do assume that capacity payments move up over that sort of medium term?

STUART LEE:

Correct.

MATTHEW AKMAN:

Okay, thanks. And my other question. . . Sorry?

BRYAN DENEVE:

No, I just wanted to clarify that the capacity payments are fixed for the next three years, because they're sold forward in the auction process. So, when we see capacity payments improving, that's 3-5 years beyond 2013. I just wanted to clarify that.

MATTHEW AKMAN:

So starting in 2014?

BRYAN DENEVE:

That's right.

MATTHEW AKMAN:

Okay, thanks for that. My other question is just around the operations and marketing of the output of the assets. I don't know if you guys have a marketing presence in New England now. I guess the Capital Power Income assets are for sale so to the extent that you're doing marketing anywhere in the east like for Curtis Palmer in New York, or whatever, that may go from your organization, so how do you intend to manage the marketing of the output and the buying and selling of gas for these assets?

BRYAN DENEVE:

So we, our commodity trading group which is located in Calgary have been trading products in the US Northeast already historically, so we're well positioned to be able to start managing the commodity side of these assets both from the fuel side and the electricity output side immediately.

BRIAN VAASJO:

And I think just as a clarification, as Bryan said we've been trading in and around that area for a number of years and that has been in Capital Power's name, not in the name of Capital Power Income L.P.

MATTHEW AKMAN:

You mean, Brian, just kind of through power marketing business.

BRIAN VAASJO: Right. Correct.

MATTHEW AKMAN:

Not in and around assets.

BRIAN VAASJO:

Correct.

MATTHEW AKMAN:

So, it'll all be done out of Calgary.

BRIAN VAASJO:

Yes.

MATTHEW AKMAN:

Okay, great thank you. Those are all my questions.

OPERATOR:

The last question in the queue at the moment comes from Linda Ezergailis from TD Newcrest. Please go ahead.

LINDA EZERGAILIS:

Thank you. Just a question on your closing date; when in April would you anticipate it to close and what sort of agreements would be required from which government bodies?

STUART LEE:

We would be looking at normal regulatory approvals which would include FERC approval and Hart-Scott

Rodino. And typically I would suggest that is about a 60 day process for closing.

LINDA EZERGAILIS:

Around 60 days from today?

STUART LEE:

Correct.

LINDA EZERGAILIS:

So, mid-April-ish?

STUART LEE:

Right.

LINDA EZERGAILIS:

Great, thank you.

OPERATOR:

We have no other questions in the queue at the moment. Back to you Randy.

RANDY MAH:

Okay, thanks. If there are no more questions, we'll conclude our conference call. Thanks again for joining us on short notice and for your interest in Capital Power and we'll talk to you soon at our quarterly release. Have a good day everyone.

OPERATOR:

Ladies and gentlemen, this concludes Capital Power Corporation's Analyst Conference Call. Thank you for your participation and have a nice day.

[CONFERENCE CALL CONCLUDED]