Capital Power
Third Quarter 2019 Results Conference Call
October 28, 2019

Corporate Participants

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Conference Call Participants

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Mark Jarvi
CIBC Capital Markets

Andrew Kuske
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Ben Pham
BMO Capital Markets

Patrick Kenny
National Bank Financial

Robert Kwan
RBC Capital Markets

John Mould
TD Securities

Jeremy Rosenfield
Industrial Alliance Securities

Operator
Welcome to Capital Power's Third Quarter 2019 Results Conference Call. At this time, all participants are in listen-only mode. Following the presentation, the conference call will be opened for questions. This call is being recorded today, October 28, 2019. I'll now turn the call over to Mr. Randy Mah, Director of Investor Relations. Please go ahead.

Randy Mah
Good morning and thank you for joining us today to review Capital Power's Third Quarter 2019 Results, which were released earlier this morning. The third quarter financial results and the presentation for this conference call are posted on our website at capitalpower.com. Joining me on the call are Brian Vaasjo, President and CEO, and Bryan DeNeve, Senior Vice President and CFO. We will start with the opening comments and then open up the lines to take your questions.

Before we start, I would like to remind everyone that certain statements about future events made on this call are forward-looking in nature and are based on certain assumptions and analysis made by the Company. Actual results could differ materially from the Company's expectations due to various risks and uncertainties associated with our business. Please refer to the Cautionary Statement on forward-looking information on Slide Number 2.

In today's discussion we will be referring to various non-GAAP financial measures as noted on Slide Number 3. These measures are not defined financial measures according to GAAP and do not have standardized meanings prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures used by other enterprises. These measures are provided to complement the GAAP measures which are provided in the analysis of the Company's results from Management's perspective. Reconciliations of these non-GAAP financial measures can be found in our Third Quarter 2019 MD&A. I'll now turn the call over to Brian Vaasjo for his remarks, starting on Slide 4.

Brian Vaasjo
Thanks, Randy, and good morning. I'll start off with the highlights for the third quarter. In August, we entered into an agreement to acquire the remaining 50% interest in Genesee 3 from TransAlta Corporation in exchange for the divestiture of our 50% share in Keephills 3 and $10 million in cash. The transaction closed on October 1.

We have assumed full control of the Genesee generating station which allows us the strategic freedom to make decisions that further optimize value. This includes accelerating our dual-fuel capability plans to maximize flexibility in using natural gas as fuel. The transformation of the units to 100% dual-fuel is on track with Genesee 2 expected to be 100% dual-fuel by mid-2020, followed by Genesee 1 in the spring of 2021.

In the third quarter, we had excellent operating performance from our generation fleet with 96% availability. This included a planned outage at the Joffre facility for most of September that reduced its availability to 82%.

As part of our Normal Course Issuer Bid program, we bought back 1.6 million common shares for $50 million in the third quarter. For 2019 year-to-date, we've bought back approximately 2 million shares for $60 million.

Turning to Slide 5, I'll review Alberta power prices. In the third quarter, the average power price was $47 per megawatt hour compared to $55 in the third quarter of 2018. The lower power price was impacted by lower-than-average summer temperatures and low natural gas prices. On a year-to-date basis, the average power price was $58 per megawatt hour. That is 18% higher than the $49 power price in 2018. We see a positive outlook for Alberta power prices based on current forward prices. For 2019 to 2021, forward prices are averaging $57 per megawatt hour. I'll now turn the call over to Bryan DeNeve.

Bryan DeNeve
Thanks Brian. I'll review the financial highlights starting on Slide 6. The third quarter financial results were in line with our expectations that included a record quarter for AFFO of $225 million. As Brian mentioned, the average spot power price was $47 per megawatt hour in the third quarter. However, our trading desk captured an average realized price of $59, that was 26% higher than the average spot price. The $59 average realized price was also higher than the $54 realized price in Q3 2018.

One of the significant items, from an accounting perspective, was the swap of the Genesee 3 and Keephills 3 assets. With the closing date of October 1, the transaction spans over two quarters and, therefore, impacts the financial results for both Q3 and Q4 of this year. The overall expected net impact is a non-cash, pre-tax net loss of $227 million, driven by three core components.

First, the pre-tax impairment of K3 of $401 million, which was recorded during the third quarter immediately prior to K3 being classified as an asset held-for-sale. This will be partially offset by the accounting for the close of the transaction in the fourth quarter of 2019, which will include a $60 million gain on the remeasurement of our previously owned share of G3, as well as other income of $114 million for the accelerated recognition of the off-coal compensation deferred revenue from the Alberta government. This accelerated recognition aligns with the net reduction in coal asset carrying amounts driven by the transaction.

Moving to Slide 7, I'll review our financial results in the third quarter compared to the third quarter of 2018. Revenue and other income were $517 million, up 31% compared to the third quarter of 2018 due to higher realized power prices and increased generation.

Adjusted EBITDA was $284 million, up 59% year-over-year. The higher Adjusted EBITDA was largely driven by the acquisitions of Arlington Valley and Goreway and commercial operations of New Frontier Wind that were added to the fleet after the third quarter of 2018. Normalized earnings of $0.60 per share was up compared to $0.33 per share in the third quarter of 2018. We generated $225 million in AFFO, a record quarter that was up 44% year-over-year. AFFO per share was $2.11, up 39% from the third quarter of 2018.

Slide 8 shows our financial performance on a year-to-date basis compared to the same period in 2018. Revenues and other income were $1.28 billion, up 19% year-over-year. Adjusted EBITDA was $677 million, up 20% compared to 2018 due to the additions of Arlington Valley and Goreway, and stronger performance from the Alberta Commercial segment. Normalized earnings of $1.05 per share were up 30% compared to $0.81 in 2018.

In the first nine months of the year we have generated AFFO of $427 million that was up 35%

year-over-year. AFFO per share was $4.11, up 34% from the same period in 2018. Overall, our year-to-date results showed double-digit increases in the key financial metrics.

Turning to Slide 9, I'll provide an update on our Commercial portfolio positions. Since the second quarter of this year, we've increased our 2020 hedge position from 41% to 53% at an average contract price in the mid-$50 per megawatt hour range. For 2021, we're 2% hedged at an average contract price in the high-$60 per megawatt hour range; and for 2022, we're 10% hedged at an average contract price in the low-$50 per megawatt hour range. This compares to current average forward prices of $57 per megawatt hour for 2020, $58 for 2021, and $54 for 2022. I will now turn the call back to Brian.

Brian Vaasjo
Thanks, Bryan. I'll conclude our comments on our results to date by comparing our nine months performance against our 2019 annual targets. As shown on Slide 10, our average facility availability was 95%, and we are on track to achieve the 95% annual target. Sustaining capital expenditures were $58 million in the first nine months and we continue to forecast an $80 million to $90 million range for the full year.

Adjusted EBITDA was $677 million year-to-date, and we are currently forecasting to be above the midpoint of $870 million to $920 million target. We have generated $427 million in AFFO year-to-date and we continue to expect that we will be at the top end of our $485 million to $535 million target range for the full year.

Slide 11 outlines our development and construction targets for 2019. We currently have two fully contracted wind projects under construction. This includes Whitla Wind in Alberta with commercial operations targeted for the fourth quarter of this year. The budget for Whitla is $315 million to $325 million and is currently tracking over budget at $340 million, largely due to foreign exchange impacts.

We also have our Cardinal Wind project under construction in Illinois. The budget is $289 million to $301 million, with a target to begin commercial operations in March of 2020. Once completed, these two wind projects will add 350 megawatts of long-term contracted generation to our fleet. We have also exceeded our $500 million of committed contracted growth capital in 2019 with the $1 billion acquisition of the Goreway facility in June. I'll now turn the call over to Randy.

Randy Mah
Thanks Brian. Before we start the Q&A, I would like to announce the date for our upcoming Investor Day event. It'll be held in Toronto on December 5th and will be a half-day morning event. More details on the event will be provided in a press release that will be sent out later this week. Okay, Operator. We're ready to start the Q&A.

Operator
Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please star, then two. Once again, to join the question queue, please press star, then one now. Our first question comes from Robert Hope of Scotia Capital.

Robert Hope
Good morning everyone. Thanks for taking my questions. Maybe to start off, could you give us an update on how you're looking at the renewable power market in Alberta? We've seen a couple projects inch forward on a pure merchant basis and I just want to get a sense of how you're looking at your own development sites in the province and whether or not we could see Whitla 2 on a merchant basis.

Brian Vaasjo
As you've indicated, there are certainly some projects that are, as you say, inching forward on a potentially merchant basis. I think we've indicated, even since our last Investor Day, that we believe Whitla 2 in particular is very close to itself moving forward on a merchant basis. We do continue to look for contracts

as well that could support the construction of that facility.

Robert Hope
All right. Thank you for that. Then when we look at the overall Alberta power market, we saw you added some hedges in 2020, less so for 2021. Just want to get a sense of how you're looking at the market; if you think there'll be any additional changes there or is it just that you saw good liquidity in 2020 and added some hedges there?

Bryan DeNeve
Yes. We've seen liquidity improve quite significantly over the last quarter in the Alberta wholesale market. We believe part of that is driven by the confirmation that the energy-only market is going to remain in place, so with that market certainty you see end users more willing to sign forward arrangements. The other thing is given that the market has regained supply-demand balance, that also has provided us impetus for some customers to look to hedge their positions. We're hopeful that we'll continue to see that liquidity improvement on a forward-going basis.

Robert Hope
All right. Appreciate the insights.

Operator
Our next question comes from Mark Jarvi of CIBC Capital Markets.

Mark Jarvi
Good morning. Two questions, one was around recontracting opportunity. Ontario talks a little bit more incremental disclosure about potentially having some discussions in late 2019 and 2020. Maybe you can just kind of comment on how you see those playing out and when you guys would be in a position to discuss recontracting potential?

Bryan DeNeve
Yes. Maybe you can give us a bit more background on where you see the reference to Ontario? I think our discussions on recontracting currently are focused on Decatur in Alabama and Island in BC.

Mark Jarvi
Okay. Maybe it was on there then. Maybe just broadly on what you guys see playing out over the next year then.

Bryan DeNeve
In terms of Decatur facility, we're in active discussions with the Tennessee Valley Authority in terms of recontracting that facility. It's going through their internal processes right now. We hope that'll be completed during the balance of this year and we'll have something to speak to at Investor Day on December 5.

With Island Generation, that process is going to take a little longer, so at some point in 2020 we would expect to have something we can publicly announce on that facility.

Mark Jarvi
Okay. That's helpful. Then on Arlington Valley, given this is sort of the first quarter we've seen it, we don't know year-over-year comps. Maybe you can comment on how that asset performed and how you think revenue and generation was relative to your expectations.

Bryan DeNeve
Arlington has performed consistent with our business case, underlying the acquisition of that asset. We did put in place a heat rate call option, which is in place for the non-toll months on a go-forward basis through 2026. We've only had one month experience, which was April of this year, but that was a very positive outcome. We're optimistic that Arlington will actually outperform on a go-forward basis.

Mark Jarvi
Okay. Maybe I'll squeeze one more in. Just given where you guys think the balance of supply and demand balance is in Alberta, and with some of these potential renewable projects, either with corporate PPAs or a merchant moving forward, any concern that you think there will be a bit more supply than needed and power prices could feel a bit of pressure here going forward?

Bryan DeNeve

No. We're watching very closely, of course, with our Whitla 2 project and have a really good sense of what the economics look like on new wind. We're also looking at solar opportunities. We believe that there's room for a certain amount of volume in the Alberta market, but, as you add more wind or you add more solar, that'll tend to depress prices if you add too much supply of either of those types. We believe there's a natural balance there and we'll see some incremental growth, but, certainly, not to the extent of what you would've seen under the procurement program, for example, that was in place with the previous government.

Mark Jarvi
Okay. I'll leave it there. Thanks.

Operator
Our next question comes from Andrew Kuske of Credit Suisse.

Andrew Kuske
Thank you. Good morning. Maybe if we could just get a bit of background on what's your baseline assumption on ongoing energy development in the province? Obviously, we just had the federal election. That's maybe provided a bit more clarity on the landscape on future pipeline developments. How does that work into your views on just energy demand on a go-forward basis?

Bryan DeNeve
Yes. In terms of energy growth, we expect it'll continue on a go-forward basis sort of in the 1.5% to 2% per year range. That's a view that is consistent with TransMountain, of course, going ahead, but certainly doesn't anticipate a lot of incremental pipeline capacity beyond that.

What we are seeing is load growth in the Alberta market coming from other sectors than oil and gas, which is generally very positive. For example, one driver would be the diversification on the petrochemical side, the cannabis industry, and also we're seeing a lot on the bitcoin mining sites. All of those are strong positive drivers for demand growth and will come together and support something in that 1.5% to 2% per year range.

Andrew Kuske
Okay. That's helpful. Then maybe just a follow-up with the sale from Canadian Utilities to Energy Capital Partners – and that's yet to close – but do you anticipate any changes in bidding behaviour and just power market behaviour with a new player into the market?

Bryan DeNeve
Yes. We think it'll certainly be a positive impact on the market. We would expect Energy Capital Partners is going to be more aggressive with the assets in terms of optimizing their commercial value. I think at times ATCO took a more risk averse approach to managing their assets in the Alberta markets, so, certainly, this will be a positive development as we see those assets managed on a go-forward basis.

Andrew Kuske
Maybe just one follow-up to that follow-up. Does that result, in your view, in maybe a bit more power market volatility which bodes well for some of the equipment that you have in the market?

Bryan DeNeve
Absolutely.

Andrew Kuske
Okay. Great. Thank you.

Operator
Our next question comes from Ben Pham of BMO Capital Markets.

Ben Pham
Hi. Thanks. Good morning. I missed some of your comments on the question on Whitla earlier. Did you say that you're willing to build a wind merchant in Alberta; is that what you said earlier?

Brian Vaasjo
I think we've always said that given the right economic circumstances we would consider building wind merchants in Alberta, but, again, always and continually pursuing contracted opportunities. However, there are in Alberta today potentially a couple of long-term contracts associated with

renewables, but a lot of the market activity tends to be much, much shorter term in terms of contracting renewables.

Ben Pham
Okay. Your plan is still outside Alberta renewables. I know that's slowing a bit here, but the plan is still contracts are required outside of Alberta renewables?

Brian Vaasjo
Yes. The only place that we would consider any sort of merchant activity would be in the province of Alberta.

Ben Pham
Okay. Second question on Alberta contracting – I'm thinking more as you head towards 2021, you have a good sense of where forwards are and a range to think about it. You have the accelerated program to reduce carbon taxes and whatnot. I'm curious what Alberta power price do you need to maintain this kind of $200 million EBITDA run rate in Alberta contracted?

Bryan DeNeve
A lot of that depends on the exact details of the TIER program that is ultimately implemented by the provincial government, which we expect we'll see some time over the balance of this year. If they do stay with the current expectations that are consistent with what's in place right now, we're probably going to need prices slightly north of the mid-$50s in order to maintain that EBITDA run rate. But, certainly, if there're some elements that are changed in the TIER program relative to what is currently in place under the CCIR, that could lower that number. Part of it is just going to depend on how many offsets we're allowed to use, what the ultimate price per tonne they land on is, and what the intensity target is that they ultimately land on.

Ben Pham
Okay. The current plan you see right now is what's leaned to the slightly higher than $55?

Bryan DeNeve
It would to maintain the current EBITDA run rate on the contracted assets, yes.

Ben Pham
Okay. All right. Thanks a lot.

Operator
Our next question comes from Patrick Kenny of National Bank Financial.

Patrick Kenny
Hey. Good morning, guys. Just on some of these smaller co-gen projects moving forward in Alberta, wondering if you're also looking at teaming up with any midstreamers or petchem companies with the diversification program to develop new co-gen, and maybe your thoughts on how these co-gen opportunities might stack up against potentially expanding your capacity at CBEC, as well as just a general update on timing of G4 and 5 in light of Suncor's co-gen moving forward.

Brian Vaasjo
We continue to look at opportunities around co-generation. We've had on and off discussions with a number of players who are looking for potential partners in terms of co-gen operations. The degree to which a particular opportunity impacts on our view on potentially expanding Clover Bar is largely based on the degree to which the power side of a facility is matched to the needs of the co-gen opportunity or whether it's driven substantially by natural gas requirement in steam.

For example, in the Suncor case it's driven entirely by steam requirement, resulting in a lot of additional power going to the grid. Other opportunities have very closely matched power and steam requirements, so, again, the degree to which a particular opportunity impacts on our view of our own peaking capability would depend specifically on that opportunity.

As it relates to Genesee 4 and 5, certainly with increasing generation being announced in the market, that does, given projections of 2% to 3%, or 1% to 2% growth in the market, and in terms of assuming that the coal fleet and converted to natural gas fleet continues to be healthy, we would see that that opportunity is slowly being pushed past certainly the Suncor announcement date of operation.

Patrick Kenny
Got it. Then I guess carbon tax being a moving target as well these days, but just with the federal election behind us, curious your thoughts as to where you think the carbon tax might end up here in a couple of years. I guess, theoretically, if the carbon tax was to move towards the $50 per tonne federal policy versus Alberta's $20 or $30 policy today, what sort of financial impact that would have on you guys?

Bryan DeNeve
It's interesting. If the provincial program was to move ahead with $30 per tonne and an intensity target similar to a natural gas facility equivalent, that actually is more onerous for us than the federal program. But, again, as you said, Pat, we've got to see what that provincial program ultimately turns out to be. If it does turn out that it's $20 per tonne or there's a more lenient intensity target, that then would probably allow the – it would start to converge with the Federal program.

If you look further out with that increase to $40 or $50, again, with the federal program with the more lenient intensity targets we're actually more or less indifferent, I think, between the provincial and federal programs when you look three to four, five years out. A lot of it just really depends on the details we see at the end of the day on the provincial program and then what happens with the discussions around equivalency between the Province and the Feds as things unfold. So, definitely more to be revealed.

Patrick Kenny
Got it. Then lastly from me, guys, I'm sure we'll be delving more into the details here around C2CNT at Investor Day, but just curious at a high level what milestones we should be watching out for perhaps through 2020, and where you have your sights set in terms of potentially reaching commercial production.

Brian Vaasjo
Pat, we expect that at Investor Day to have a fairly extensive discussion around C2CNT and, in fact, are planning on having Professor Licht there to give a bit of a presentation on the technology. Having said that, we are developing now our plans on moving forward with C2CNT and the first commercial operations here in Alberta. Again, more to be revealed at Investor Day.

When you look at the milestones right now, carbon nanotubes are being produced in Calgary and the testing in Lehigh's facilities will be starting very shortly. There's continued to be cement testing, for example, taking place at George Washington University, developing those very specific nanotubes that would be ideal for cement. That part of it is moving along very, very well. As I say, the production is already there, to a limited degree in Calgary, so we're seeing meeting some very significant milestones have already happened.

What we'll be looking for is the scaling up taking place. As I say, it is in progress and we're very pleased with that progress; also looking for successful tests by Lehigh around the characteristics of adding carbon nanotubes to concrete. Again, a lot more will be a revealed on Investor Day, but we continue to be very bullish on the investment and its potential.

Patrick Kenny
That's great. Thanks, Brian. We look forward to December 5. Thanks, guys.

Operator
Our next question comes from Robert Kwan of RBC Capital Markets.

Robert Kwan
Good morning. Maybe I'll just come back and start on your comments on G4, G5. Just wondering, as you talk about pushing that out past Suncor, is that really kind of a statement on the cost competitiveness of fast-start CCGT or is it more about just how you're seeing supply/demand balance when you think about what's coming into the market, what you're thinking around merchant wind? Kind of from that perspective, if demand surprises to the downside, how much downside do you see in price?

Bryan DeNeve
We weren't surprised by Suncor moving ahead with the co-gen. It makes a lot of sense for them in terms of their boilers had reached the end of their lives; they really came down to a decision of do you do standalone gas-fired boilers or do you go with the co-gen route. Certainly, co-generation is the most efficient form of natural gas-fired generation, so we never saw G4, G5 as competing against it. It was just a matter of what's the right timing in the event that they decide to move forward with their co-gen, which they have done. Now that just means the timing of G4, G5 gets delayed until there is sufficient demand growth or retirement of older assets that creates the next need for new generation beyond Suncor's addition.

In terms of renewables, as we discussed earlier on the call, there is a window of opportunity here for renewables where they're probably economic on a merchant basis, both for solar and wind. But, as I mentioned earlier, as you add more renewables it starts to cannibalize because that generation comes on at the same time. In particular solar, we know when it's going to come on at the same time, but also for wind, there's high correlation between wind sites, particularly in Southern Alberta.

We see a limited amount of renewables that make sense on a merchant basis, but that's capped at a certain amount. At the end of the day, Alberta's going to need gas-fired generation for reliability and that's going to set the long-run price in the province, not renewables being added to the system.

As we look at 1.5% to 2% demand growth, as we look at some of those very old assets in Alberta coming and hitting their retirement dates in the latter part of the next decade, we still see new thermal generation is going to be needed in the back half after the Suncor addition.

Robert Kwan
Got it. Okay. I guess turning to the consolidation of G3 and specifically, actually, around Clover Bar, historically you've touted Clover Bar's insurance against a single unit forced outage; I guess technically that's not the case anymore. I'm just wondering does that cause you to want to add more peaking as just kind of the Clover Bar expansion? Would you reduce hedging to kind of stay away from the potential liability? Or third, was it just as you thought about the insurance aspect more of a nice to have versus something that was particularly strategic?

Bryan DeNeve
Yes. There's no doubt as we move into 2021, we're looking at larger single contingency impacts from the Genesee plant with G1, G2 no longer being under PPA and with G3 100% ownership. At the end of the day, Clover Bar made sense from a business perspective on a standalone basis when we made that investment decision, and that continues to be the case, but it also had this ancillary benefit of being insurance against availability of our baseload assets.

That continues, and our decision whether to add more peaking generation would follow the same line of assessment and thinking. Really, again, it comes down to adding new peaking generation in Alberta will be a function of the overall market supply/demand balance and need as opposed to just hedging our own specific portfolio.

I don't think you'll see any change in how we're managing the portfolio in Alberta. We'll continue to look for those opportunities when liquidity allows us to sell forward at appropriate prices in the market, but with our additional length, certainly I would expect there will be less periods of time where we'll be potentially taking a short position in the Alberta market compared to what we've done historically.

Robert Kwan
Got it. Maybe if I can just finish with the NCIB with the uptick we saw here in the quarter. Does that potentially signal that you're seeing this top end in terms of guidance as being conservative or is it a function of maybe more subdued M&A outlook, or is there another factor at play here?

Bryan DeNeve
No. It's primarily driven by the fact that we've been generating excess cash flow this year, as our guidance would suggest. When we look at taking that

additional cash flow and putting it to work, we look at Capital Power's share price, where the dividend yield currently is, and we feel we're materially undervalued and found that share repurchases was a good way forward to create value with that excess cash flow. We continually see quite a material pipeline of opportunities on both the acquisition and development side, so it isn't in response to that side slowing down in any fashion.

Robert Kwan
All right. It's just really getting an extra quarter in your back pocket to confirm the more positive outlook you had coming out of the first half?

Bryan DeNeve
That's right. Yes.

Robert Kwan
Okay. Great. Thank you.

Operator
Once again, if you have a question, please press star, then one. Our next question comes from John Mould of TD Securities.

John Mould
Good morning. Maybe just starting with U.S. renewables, could you update us on your U.S. wind development progress beyond the current construction pipeline, how you're prioritizing your U.S. versus Alberta renewable development opportunities and maybe how those relative returns, or potential returns I should say, currently stack up?

Brian Vaasjo
We continue to pursue opportunities in the U.S. We've got sites that, again, we're actively pursuing development and hopefully will come to fruition in terms of contracted wind opportunities in the U.S. When you ask about our priorities between Canada and the U.S., our sweet spot is building renewable wind farms. I don't think that we would be in a position where we would have to be choosing. If we had concurrent opportunities come forward, we'd execute on them both, assuming that they hit our target rates of return.

When we look at Canada and the U.S., we don't differentiate in terms of what would be a hurdle rate and what would be earning expectations or return expectations. However, we do adjust the projects on an individual basis, reflecting fundamentals around risk, length of contracts, etc. etc. They are differentiated on a project-specific basis, but not on a Canada versus U.S. basis.

John Mould
Okay. Thanks. Then just moving on to U.S. gas, I recognize you've had a busy 14 months for M&A, but I'm just wondering if you could provide a bit of colour on what the gas-fired M&A market looks like right now and what kind of opportunities you're seeing.

Brian Vaasjo
The market continues to be pretty robust, as Bryan had contemplated. At any point in time, we tend to be looking at somewhere between one and three opportunities for natural gas generation of contracted assets in the U.S. So, again, it continues to be robust. There really hasn't been much change in that market over the last year, so continue to be positive and certainly continue to see opportunities that fit our strategy.

John Mould
Okay. Then maybe just one clarification on the TIER from Bryan DeNeve's earlier comments. When you referenced where the intensity is going to settle, was that just a comment on the relative potential differences between the provincial and federal programs, or is your thinking that the TIER could depart from the 0.37 tonnes per CO2E per megawatt hour that has been mooted thus far in the process?

Bryan DeNeve
Yes. Until we see the final structure for the provincial program, we're assuming that the 0.37 is something that that still could potentially change. It's interesting; when you look at the federal program, provincial, as I mentioned earlier, the 0.37 is much more stringent than what the federal program had, which was ramping down over time. When you look at equivalency between the two, there is room for the provincial program, I think, to be more lenient than what the previous government had in place and

still be equivalent to the federal program. We have to see how that plays out.

John Mould
Got it. Okay. Thanks for the clarification. Those are my questions. Thanks.

Operator
Our next question comes from Jeremy Rosenfield of Industrial Alliance Securities.

Jeremy Rosenfield
Yes. Thanks. Just a little bit of a cleanup with regard to the outlook for Q4 and sort of the stickiness of the guidance relative to sort of your, I would call it, above expectation results on a year-to-date basis – my words, not yours. But if you look at Q4, what could really throw a wrench in terms of getting you above that guidance range because it looks like you may be tracking not only to the top but above that range? Are there remaining large contentious outages? Are there other factors that, in terms of hedges, in terms of pricing for certain hours, or things that are uneven in Q4 relative to previous quarters? Can you provide us with any additional detail?

Bryan DeNeve
Yes. There's only two factors that could really swing the results in Q4 at this point in time. The first one would be wind significantly underperforming. For those of you who were in Alberta over this weekend, that certainly isn't an issue. We've had very strong wind hit in Western Canada recently. But that would be one factor if we see negative variances on wind production over the last couple of months of the year.

The other one would be if we have an operational upset with our thermal facilities that creates significant downtime over the balance of the year. Certainly no indications that we're going to have those types of issues, but that would be the other item that could throw a wrench in things.

Jeremy Rosenfield
Okay. Barring that, more or less there's some, I think, good amount of certainty is what you're saying?

Bryan DeNeve
Yes.

Jeremy Rosenfield
Okay. The only other question that I have is just from a high level. Coming back to your view of where the shares are trading and the valuation for the stock and whether you feel like potentially there are more strategic things that the Company needs to do in order to really get investors focused on the value, perhaps a conversation for Investor Day, but can you talk to us about strategic review process or not specifically selling the Company but thinking about how the portfolio is positioned today and maybe what assets need to be added to get investors really more interested in Capital Power as a company, just high-level?

Brian Vaasjo
I think there're a number of things that continue to impact on investors' perceptions of Capital Power. One, of course, is the continuation of a bit of uncertainty in Alberta, and as this call illustrates, there's still discussions around what's going to happen in terms of carbon tax and, as well, I'm not so sure that the market has gotten comfortable again with the Alberta market, which has continuing adjustments and discussions as we go forward. That continues to be something that's on a track of – or should be on a track of increasing investor confidence in the Alberta market.

When you look at our overall strategy of continuing with merchant interest in Alberta and contracted interests throughout North America, I think as you've seen, the strategy is playing out. We are adding, and successfully adding, long-term contracted assets in the U.S. and in Canada. I think one of the things that the market is looking for is, and a significant part of the thesis, is recontracting. I think as those come to pass I believe it'll be a significant increase in confidence in both our contracting approach and our contracted asset approach, as well as, as I said earlier, what we are doing in Alberta from a merchant perspective.

Would expect those two to be converging over the next little while which should result in increasing investor confidence in our thesis and certainly expected to result in appreciation in share price.

Jeremy Rosenfield
Great. I'll leave it there. Thank you.

Operator
This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Mah for any closing remarks.

Randy Mah
Okay. Thanks again for joining us today. We hope to see you at our Investor Day on December 5th. Have a good day everyone.

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