Capital Power
Fourth Quarter 2019 Results Conference Call
February 24, 2020

Corporate Participants
Brian Vaasjo
President, President & CEO

Bryan DeNeve
Senior Vice President, Finance and CFO

Randy Mah
Director, Investor Relations

Conference Call Participants
Rob Hope
Scotiabank

Maurice Choy
RBC Capital Markets

John Mould
TD Securities

Patrick Kenny
National Bank Financial

Operator
Welcome to Capital Power’s Fourth 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, February 24, 2020.
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 Fourth Quarter and full year
2019 results, which we released earlier this morning.
Our 2019 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 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 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. 2019 was another
outstanding year for Capital Power from a
performance perspective. This included the $1 billion
acquisition of the Goreway Power Station in Ontario
that doubled our $500 million annual growth target.
We also completed the construction of the 202
megawatt Whitla 1 project in Alberta. To finance
growth, we successfully raised $1.2 billion in capital
last year.

We assumed full control of the Genesee Generating
Station by swapping our interest in Keephills 3 for
Genesee 3 with TransAlta. We accelerated our dual
fuel capability plans at Genesee to be completed by
2021, which involves substantially compressing the
construction duration to fit into our normal planned
outages.

Our investment in C2CNT is part of our sustainability
strategy of supporting the development and
deployment of carbon conversion technology. The
testing of carbon nanotubes in concrete is ongoing. Accordingly, we continue to plan to exercise options to increase our equity interest in C2CNT from 9% to 40% by the end of this year. Assuming the carbon nanotubes in concrete testing and preliminary marketing of the product is successful, we plan to start the commercial scale production of the nanotubes at the new Genesee Carbon Conversion Center, which is expected to commence operations in 2021.

We also had strong financial performance in 2019 where we met or exceeded our financial targets. This included generating a record year of AFFO with $555 million, which was $45 million higher than the midpoint of our $485 million to $535 million guidance range.

Turning to slide 5, I’ll review our 2019 performance versus the annual targets. Annual facility availability was 94% last year, which was slightly below the 95% target. We reported $78 million in sustaining CapEx, which was slightly below our target range of $80 million to $90 million. Our reported Adjusted EBITDA was $1 billion. After removing the one-time impacts associated with the swap of interests in Genesee 3 and Kephills 3, Adjusted EBITDA would be $907 million, which was within the $870 million to $920 million guidance range. As mentioned, we had a record year of AFFO with $555 million that exceeded the $485 million to $535 million guidance range.

I’ll review the outlook for Alberta power prices on slide 6. In 2019, the average power price was $55 per megawatt hour compared to $50 in 2018. The higher power price in 2019 reflected the impact of higher natural gas pricing, unseasonably cold temperatures coupled with baseload facility outages experienced during the first quarter of 2019 when average power prices were $69 per megawatt hour. We see a positive outlook for Alberta power prices as seen in the current forward prices for 2020 to 2022. Forward prices are averaging $57 a 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 7. The fourth quarter and 2019 financial results were consistent with our updated expectations that we provided at our Investor Day in December. This included generating $555 million in AFFO that was at the high end of our guidance range.

In the fourth quarter of 2019, the average spot price was $47 per megawatt hour; however, our trading desk captured an average realized price of $57 that was 21% higher than the average spot price. The $57 average realized price was also higher than the $52 realized price in Q4 2018.

As mentioned on our Q3 call, there were one-time accounting impacts related to the transaction swap of the Genesee 3 and Kephills 3 assets that closed on October 1 that impacted both the fourth quarter and full year results. I won’t go over these again, but there are details provided in our MD&A.

Moving to slide 8, I’ll review our fourth quarter 2019 financial results compared to the fourth quarter of 2018. Revenues and other income were $683 million, up 101% compared to the fourth quarter of 2018 due to strong results from the Alberta commercial and portfolio optimization segment and from the acquisition of Goreway in the second quarter of 2019.

Adjusted EBITDA was $352 million, up 106% year-over-year. As noted in the footnote on the slide, Adjusted EBITDA includes one-time items associated with the swap of interests in Genesee 3 and Kephills 3. Excluding these items, Adjusted EBITDA would be $230 million higher. The higher Adjusted EBITDA was largely driven by the acquisition of Goreway in the second quarter of 2019 and from strong portfolio optimization results.

Normalized earnings of $0.29 per share was slightly down compared to $0.30 per share in the fourth quarter of 2018. We generated $128 million in AFFO, that was up 60% year-over-year. AFFO per share was $1.22, was up 56% from the fourth quarter of 2018.
Slide 9 shows our full year financial performance for 2019 compared to 2018. Revenues and other income were approximately $2 billion, up 39% year-over-year. Adjusted EBITDA was $1 billion, up 40% compared to 2018. Excluding the one-time items described in the footnote, Adjusted EBITDA would be $907 million, up 23% due to the additions of Arlington Valley, Goreway, and New Frontier, and stronger performance from the Alberta commercial segment.

Normalized earnings of $1.34 per share were up 20% compared to $1.12 in 2018. As mentioned, we generated $555 million in AFFO, that was up 40% year-over-year. AFFO per share was $5.32, was up 38% from 2018. Overall, we had double-digit increases in the key financial metrics.

Turning to slide 10, I’ll provide an update on our commercial portfolio positions. Since the third quarter of this year, we’ve increased our 2020 hedge position from 53% to 72% at an average contract price in the mid-$50 per megawatt hour range. For 2021, we’re 3% hedged at an average contract price in the mid-$60 per megawatt hour range, and for 2022 we’re 11% hedged at an average contract price in the low-$50 per megawatt hour range. This compares to current average forward prices of $60 per megawatt hour for 2020, $57 for 2021, and $53 for 2022. I’ll now turn the call back to Brian.

**Brian Vaasjo**
Thanks Bryan. I’ll outline our financial targets for 2020 on slide 11. These are the same as we shared with you in December. Our 2020 financial targets are based on 63% of the Alberta commercial base load generation hedged at an average contracted price in the mid-$50 per megawatt hour range. They [do not] include any impacts from the $500 million of committed capital for growth. And as a reminder, there is a $40 million reduction in AFFO from Arlington Valley’s previous tolling agreement that expired in 2019. For 2020, we are targeting $935 million to $985 million in Adjusted EBITDA, and for AFFO we’re targeting a range of $500 million to $550 million.

Slide 12 outlines our development and construction targets for 2020. We currently have two wind projects under construction. The construction of our Cardinal Wind project in Illinois is nearly completed and is on schedule for commercial operations next month. The project is expected to be in the budgeted range in its U.S. dollar functional currency.

We are also proceeding with the second phase of Whitla Wind in Alberta. It is a 97 megawatt project with an expected capital cost of $165 million and expected to begin commercial operations in 2021.

Turning to slide 13, later today Capital Power will release its inaugural integrated annual report that combines our financial and ESG reporting together in one target. This report provides a comprehensive view of our priorities, performance and progress as well as insight into our strategy for creating long-term value. We also conducted third party limited assurance on some of our key sustainability indicators.

We have also released our 2019 climate change disclosure report which is aligned with the recommendations of the Task Force for Climate-Related Financial Disclosures, commonly referred to as TCFD. The report provides additional details on climate change governance, strategy, risk management, and opportunities.

In January 2020, we received a “A-” score from the CDP on their 2019 annual assessment, our highest score to date. For the first time last year, we also participated in CDP’s water security assessment and received a “B-“. The water assessment looks at how companies are reducing risks and seizing opportunities for water security. The “B-“ is a strong score for a first-time submission and a solid platform to build upon as we focus more on water management and disclosures.

I’ll conclude our presentation with an ESG slide on slide 14. For Capital Power, 2019 was another outstanding year. Our strategy has been delivering value for our shareholders year after year. Underpinning our strategies has always been a strong commitment to sustainability. I won’t go over
the ESG highlights noted on this slide, but you can see very good progress and recognition in all three areas of environment, social and governance.

We also recognized a growing stakeholder interest in understanding climate-related risks and opportunities, and I can assure you that sustainability is and will remain a very important part of our business. I’ll now turn the call back to over to Randy.

Randy Mah
Okay, thanks Brian. Operator, we’re ready to start the question-and-answer session.

Operator
Certainly. We will now begin the question-and-answer session. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue. The very first question comes from Rob Hope with Scotiabank. Please go ahead.

Rob Hope
Morning everyone. Maybe to start off, just want to touch on the sustainability and your thinking of allocation of capital there. When you’re looking at future capital investments, how do you weigh, I would guess, your historical practice of buying mid-m merit gas plants versus new renewables?

Brian Vaasjo
Generally speaking, when you look at renewables, they tend to have a much longer project life. Building a wind farm such as Whitla 2 is a 30 to 40-year life, whereas a mid-life natural gas asset is considerably shorter. The basic economics takes into consideration evolving trends associated with decarbonization.

In addition to that, we continue to do some work considering the different discount rates that should be applied to those assets, which fully takes into account the changing trends in terms of overall capital traction associated with either natural gas or renewables, so we think we are taking into consideration at least the economic implications associated with the difference between natural gas assets and wind assets.

Rob Hope
All right, so I guess it would be fair to say that you’re quite happy continuing to invest in gas but with a higher implied discount rate there?

Brian Vaasjo
Yes, and you know, we’ve always said that our preference, if you’re ending up with projects that look the same in terms of adjusted economic returns, etc., that we would view the development of renewable assets more favorably.

Rob Hope
All right. Then just moving on, can you update us on your re-contracting initiatives in Decatur, and what else is ongoing in the fleet?

Brian Vaasjo
We currently have two re-contracting discussions taking place, one with Decatur and the other one with Island Generation, and over the last couple of months, very significant progress has been made on both projects. We are hopeful that we’ll have something to announce on Decatur within the near future.

Rob Hope
All right, and then just on Decatur, that was pretty similar messaging at the Investor Day. Is anything holding it up, or is it just taking longer to close everything off?

Brian Vaasjo
It’s actually more associated with approval processes than it is actual negotiations or working out terms and conditions.

Rob Hope
All right, that’s very helpful. Thank you.

Operator
Our next question comes from Maurice Choy with RBC Capital Markets. Please go ahead.

**Maurice Choy**
Thanks and good afternoon, good morning where you are. First question, I guess Brian, in relation to the announcement that you continue your role as CEO, to the extent that it matters to investors, may I ask what's changed your decision to retire this year, and in relation to that, should we view strategy as being largely the same moving forward?

**Brian Vaasjo**
Essentially it ended up being very much a personal decision, and as I've been going through the last number of months and looking at the other activities that I would be getting involved in outside of Capital Power and through retirement, I was finding that I would tend to be almost as busy and came to the conclusion that certainly if I was going to continue to be very active in a business and giving back to community life, I might as well go back to what I was very much enjoying and continuing to enjoy, which was the President and CEO of Capital Power.

The timing of it, basically, I think you know the Board had a vigorous process taking place in terms of the search, and it kind of came to a point where it was continuing to proceed and it reached a point where I either needed to come to a decision and throw my hat in the ring, or continue on my plans for retirement. From that perspective, January was when I approached the Board and said that I would be happy to continue in my role as CEO for another three years.

**Maurice Choy**
Thanks, and just to follow up on that strategy-wise, I know we just had our investor day a couple of months ago. I suppose as you look across your three-year contract, should we expect growth and diversification as part of your strategy moving forward, or should we expect a little bit of a move or change moving forward?

**Brian Vaasjo**
Actually, one of the things that really continued to excite me about Capital Power and its future was the ongoing prospects of growth that Capital Power has and certainly the challenges going forward in terms of the growth, decarbonization, ESG. Those are all challenges to Capital Power which we are extremely well situated to meet, so that sort of excitement actually got greater and greater as I was looking at retirement, not less and less. So very enthusiastic about continuing on generally the same path as Capital Power has been on. Having said that, very responsive to the changes that we do expect will be taking place in the market.

**Maurice Choy**
Thanks, and just to finish off as you mentioned changes to the market. I wonder if you’ve had any recent discussions with the Alberta government with regards to the two AESO initiatives on market pricing—sorry, pricing framework as well as market power. Obviously, some of the recommendations from AESO to the government were not made public, so I wonder if they had reached out to you or vice versa.

**Bryan DeNeve**
Yes, the AESO does have a process that’s underway where they are engaging stakeholders, so we’re involved in terms of providing our thoughts and feedback on those two items.

**Maurice Choy**
Thank you.

**Operator**
Once again, if you have a question, please press star, then one. Our next question comes from John Mould with TD Securities. Please go ahead.

**John Mould**
Thanks, good morning everybody. Firstly, maybe just starting on the nanotube front. I’m just wondering if you can give us a little more colour on how that testing is progressing, both at Shepard and with Heidelberg’s Canadian subsidiary?

**Brian Vaasjo**
As I indicated, C2CNT continues to work with Heidelberg basically in two different areas. One is around the actual production of the optimal carbon
nanotube for concrete, and the other one is for the interface between the carbon nanotubes and concrete in terms of getting an appropriate distribution. And considerable progress has been made on both, but it is, as expected, an iterative process of continually optimizing, so I would say generally speaking it’s going as expected.

John Mould
Okay, great. Then just one question on the debt at Goreway. I think just looking at your financials, that $590 million is due in 2020. Is that just the refi in normal course with more non-recourse project financing? Is that the plan there?

Bryan DeNeve
Yes, and actually we’ve completed that extension out from the 2020 timeframe. But yes, that’s just normal course in terms of moving it out. It doesn’t dramatically affect the cost of that debt.

John Mould
Okay, great. Those are all the questions I had. Thank you.

Operator
Our next question comes from Patrick Kenny with National Bank Financial. Please go ahead.

Patrick Kenny
Hey, good morning guys. Congrats Brian on your announcement. Just wanted to start off by asking about the recent announcement on Cascade and that plant coming online, and what impact you might think that could have on the market in the post-2022 timeframe.

Bryan DeNeve
Certainly if that plant was to proceed, there would be an impact on power prices in Alberta, but given Suncor’s announcement to move ahead with their cogen facility at the end of 2023, our view is that it’s very unlikely that that plant will proceed. The economics are going to be materially challenged if it was to be coming on at the same time as the Suncor cogen.

Patrick Kenny
Okay, and maybe more in the near term here, so 72% hedged for 2020, only 3% 2021. Looks like the forwards are still in the mid-$50 range, so just wasn’t sure if that’s a reflection of your view on forward prices potentially moving higher in 2021 or just a lack of liquidity in the market.

Bryan DeNeve
No, a lot of it in 2021 is driven by our view of fundamentals in the Alberta market, which we feel are very bullish and would anticipate prices will settle materially above where forwards are currently trading for that year.

Patrick Kenny
Okay, great. Last one, maybe just a follow-up on the sustainability report. Looking across your portfolio of assets here, any assets that may not quite fit with your ESG story going forward and thinking about potential consolidation opportunity or non-core asset sales, say at the Joffre facility or any other assets that you think may not be a strategic fit from an ESG perspective?

Brian Vaasjo
As we look across the fleet and the assets that we have, from an ESG perspective, certainly the facilities in North Carolina have, I'll call it a more negative profile. The contracts are terminating next year, so we think that’s taking a course that will, one way or another, have those facilities not in our fleet.

As we look at the other assets, certainly the Joffre cogen facility is a good asset, an efficient cogeneration facility, large one. We would, as always, consider either increasing our interest or reducing our interest in that facility, depending on the other two partners.

When we look across the kind of opportunities that might be out there on the natural gas side, certainly there is a number of cogen facilities in the province that, from time to time, are rumoured to potentially come to market, and we’d certainly consider those from a contracted perspective and from a natural gas perspective.
But again, as we look across our fleet, the natural gas assets we have are very efficient and, in fact, becoming more efficient in our hands. I’m very pleased with our move to taking our coal assets and moving them to dual fuel, and certainly as we continue to look at those assets, and as we’ve talked in the past, we always look at a range of opportunities associated with those assets, and certainly the possibility of repowering is always there. So, as we look forward, we have in our—and we’ll be ending up in a very, very efficient fleet of natural gas assets, and there really aren’t any weak ones there, that we would say from an ESG perspective aren’t reasonably positive.

I think with the exception of the North Carolina assets, we’re in a pretty good position. Having said that, that doesn’t mean that at some point in time we might not be looking at divesting various assets for a whole range of reasons, including demand for capital.

Patrick Kenny
All right, that’s great. I’ll leave it there. Thanks guys.

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

Randy Mah
Okay, if there are no more questions, we’ll conclude our conference call. Thanks for your interest in Capital Power and 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.