Capital Power
Q2 2020 Results Conference Call
July 30th, 2020

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<u>Conference Call Participants</u>
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Mark Jarvi
CIBC World Markets

Patrick Kenny
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Andrew Kuske
Credit Suisse

John Mould
TD Securities

Naji Baydoun
Industrial Alliance Securities

Operator

Welcome to Capital Power's Second Quarter 2020 Results Conference Call.

Currently, all participants are in listen-only mode. Following the presentation, the conference call will be open for questions. This call is being recorded today, July 30, 2020.

I will now turn the call over to Mr. Randy Mah, the Director of Investor Relations. Please go ahead, sir.

Randy Mah

Good morning and thank you for joining us today to review Capital Power's second quarter 2020 results which we released earlier this morning. Our second quarter report and the presentation for this conference call are posted on our website at capitalpower.com.

Joining me on the call is Brian Vaasjo, President and CEO, and Bryan DeNeve, who will be doing his last quarterly call as the CFO before moving on to his new role. We will start with 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 the 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 2.

In today's discussion, we will be referring to various non-GAAP financial measures as noted on Slide 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 to their nearest GAAP measures can be found in our second quarter 2020 MD&A.

I will 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 in the quarter.

Overall, our second quarter results were solid and were in line with our expectations. With no material changes to our outlook, we are maintaining our financial guidance for 2020 that was announced at our Investor Day last December. Consistent with our annual dividend growth guidance, we've increased the common share dividend by 6.8% to $2.05 per year which represents the seventh consecutive annual increase. The dividend increase is effective with the third quarter 2020 dividend. We are also maintaining our dividend guidance for 7% annual increase in 2021 and 5% for 2022. And we're making very good progress on our renewable and growth strategy, which I'll discuss shortly. Finally, I'll comment on the changes and the alignment of the executive team that were announced this morning.

In the last couple of months, we've announced two renewable development projects in Alberta as shown on Slide 5. This includes Phase 3 of the Whitla Wind facility, that will add 54 megawatts in late 2021 at an expected capital cost of $92 million. Construction activities and discussions for renewable offtake agreements with commercial and industrial customers are occurring concurrently for Whitla 2 and 3. Once all three phases of the Whitla wind facility are completed at the end of 2021, it will be Alberta's largest wind facility with 353 megawatts of generation capacity.

Today, we are announcing our first solar development project in Canada, the Strathmore Solar project that will add 40.5 megawatts in early 2022, with an expected capital cost of $50 million to $55 million. We expect a portion of the output to be sold under renewable offtake contracts. The average annual Adjusted EBITDA and AFFO for the Strathmore Solar are expected to be approximately $5 million over the first five years.

Slide 6 shows the realigned Capital Power executive. I'll take a moment to introduce you to the new executives and comment on the significance of the realignment. On the far left we have Kate Chisholm, who will continue in her role of Chief Sustainability Officer, and we are adding planning to her responsibilities. We felt that our strategic planning needs to evolve to have more of an ESG lens.

Next is Bryan DeNeve who will return to the commercial business development role. Bryan has modified the structure to focus more clearly and efficiently on the commercial and growth initiatives.

Sandra Haskins is promoted to Senior Vice President of Finance and Chief Financial Officer, who in her 18-year history with us has held all the major senior positions in the CFO area, including her recent position of Vice President and Treasurer. Many of you have met Sandra in the past, as she is often pitch-hit for Bryan or I in investor meetings.

Chris Kopecky is promoted to Senior Vice President and Chief Legal Officer. Chris joined us as a lawyer in the U.S. 12 years ago, but for the last 5 years, has headed up our U.S. commercial and business development activities. In addition to the commercial fence Chris will bring to his new role, he will also bring us a U.S. perspective to our executive table.

Jacquie Pylypiuk adds culture and information technology to her existing people or human resources responsibility. Capital Power has an outstanding culture with excellent engagement. As we move into the new world of work, maintaining our culture will be critical, so highlighting it and aligning it with people is very important. Information systems will be increasingly important to lever our employees' skill sets across the Company.

Darcy Trufyn's role of Senior Vice President, Operations, Engineering and Construction will continue unchanged.

For the past few months, we've drilled down into the organization to develop a more efficient and effective alignment which has resulted in over 20 changes in roles and responsibilities and a net reduction of over 12 positions. This positions the organization very well for the coming years.

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

Bryan DeNeve

Thanks, Brian. I'll review the financial highlights starting on Slide 7.

Overall, the second quarter financial results were in line with our expectations. Our trading desk captured an average realized power price of $53 per megawatt hour in the second quarter that was 77% higher than the average price of $30 per megawatt hour. The low power price in the second quarter reflected lower market demand from reduced oil and gas production and impacts from COVID-19, and softer pricing from a stable baseload supply, strong hydro and wind generation, and moderate temperatures.

In the second quarter, we recorded $3 million for the estimated net liability for the Line Loss Rule Proceeding that increased the overall provision to $18 million. The provision was updated to reflect updated information from the AESO. We expect the timing of the three invoice payments to begin in 2020 and continue into the first half of 2021.

We have reinstated our dividend reinvestment plan which was previously suspended in June 2015 to raise equity towards renewable development projects under construction. With respect to our credit ratings, both DBRS and S&P have now confirmed our investment grade credit rating in the past few months. On July 14, S&P affirmed our BBB low rating with a stable outlook while DBRS affirmed our BBB-rating and stable outlook in their April 7 report.

Moving to Slide 8, revenues and other income in the second quarter were $435 million, up 19% compared to the second quarter of 2019 mainly due to the acquisition of Goreway in June of 2019. Adjusted EBITDA was $217 million, up 14% year-over-year that was largely driven by the acquisition of Goreway and renewable additions. Normalized earnings of $0.17 per share were up 21% compared to $0.14 per share in the second quarter of 2019. We generated $97 million in AFFO that was 14% higher than the $85 million in the second quarter of last year, and AFFO per share was $0.92, up 12% from the second quarter of 2019.

Slide 9 shows our financial performance in the first half of the year compared to the same period in 2019. Revenues and other income were $968 million, up 27% year-over-year due to the acquisition of Goreway and strong portfolio optimization revenues. Adjusted EBITDA was $451 million, up 15% compared to 2019, primarily due to the acquisition of Goreway and renewable additions of Buckthorn, Cardinal Point, and Whitla Wind. Normalized earnings of $0.44 per share were unchanged from a year ago. We continue to generate strong AFFO including $215 million in the first six months that was up 6% year-over-year. AFFO per share was $2.04, up 4% from the same period in 2019.

Turning to Slide 10, I'll provide an update on our commercial portfolio positions. For the remainder of 2020, our baseload generation is substantially hedged. At the end of June, we’re 10% hedged for 2021 at an average contract price in the high-$50 per mid one hour range. We expect liquidity to increase during the remainder of this year that will facilitate increased hedging for 2021. For 2022 and 2023, we’re 16% and 11% hedged at an average contact price in the low-$50 per megawatt hour range for both years. Current forward prices are in the low-$50 per megawatt hour for 2021 to 2023.

I will now turn the call back to Brian.

Randy Mah

Brian, you might be on mute.

Brian Vaasjo

Thanks, Bryan, and thanks, Randy.

I'll review our six month performance versus our 2020 annual targets as shown on Slide 11.

The average facility availability in the first six month is 92% compared to the 93% annual target. With most of our planned major outages already completed in the first half of the year, and with the deferral of the Genesee 2 planned outage to 2021, we expect the average availability to be slightly above our target for 2020. Sustaining CapEx were $34 million in the first half of the year. With the deferral of the Genesee 2 outage we suspect sustaining CapEx will be below the $90 million and $100 million annual target.

We recorded $451 million in Adjusted EBITDA in the first half of the year versus the $935 million to $985 million target. Based on our current forecast, we expect a full year Adjusted EBITDA to be above the mid point of the range.

We generated $215 million of AFFO in the first six months compared to $500 million to $550 million target range. We are on track to be near the mid point of the AFFO range excluding the impacts of the Line Loss Rule Proceeding.

Slide 12 outlines our development and construction targets for 2020. This includes the construction of two wind projects. We completed our Cardinal Wind project on schedule in March and within the U.S. dollar budget range. Following the start of the commercial operations, we received $221 million in net tax equity financing from two U.S. financial institutions. Cardinal Point is now operating under a 12 year PPA for 85% of its output.

The other wind project under construction is Whitla 2, which is currently tracking on budget and on schedule for commercial operations in the fourth quarter of 2021.

Moving to Slide 13, we have an annual target of $500 million of committed capital for growth. Thus far this year, we've committed approximately $330 million for growth. This includes the acquisition of Buckthorn Wind in Texas, with a 15 year weighted average contract remaining life and two renewable development projects in Alberta, Whitla Wind 3, and the Strathmore Solar project that I mentioned earlier.

In summary, strong quarter and year-to-date operations, and results are very good. Construction has gone very well, and growth and renewables likewise has been very good thus far this year.

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

Randy Mah

All right. Thanks, Brian. Carl, we're ready to start the question-and-answer session.

Operator

Certainly, sir. 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. The first question comes from Maurice Choy from RBC Capital Markets. Please go ahead.

Maurice Choy

Thank you, and good morning. My first question is on the DRIP. Can you discuss your thought process on how you came about this position to reinstate the program, recognizing, of course, that S&P reaffirmed your BBB minus rating. As well, could you discuss your expectations as to what is the take-up of this, or how much equity you would expect to raise over next 12 months.

Bryan DeNeve

Yes, we looked at reinstating the DRIP in the context of our ongoing development activity we have. So, as Brian mentioned, Whitla 2 and 3 are currently under construction, and we've now added Strathmore Solar. In terms of that buildout over the next year, we're going to be looking to finance that, but we also believe there's a number of potential opportunities out there to be a good fit for Capital Power strategically. Given the volatility of the markets, we felt it would be prudent to utilize DRIP as a way to access some equity financing over that period. We anticipate about a 30% participation rate in it, which would generate about $16 million of equity per quarter. We don't see it as being hugely dilutive, but it does give us access to that equity sort of on a measured basis in what is a fairly volatile period.

Maurice Choy

Just a follow up to that, as you mentioned volatile period, and I assume that one of the items include where the Alberta power price is at the moment. Should we see a recovery of that market, should we then automatically assume that the DRIP would be turned off, or is this a longer term and almost permanent feature of your sources of funding?

Bryan DeNeve

You know, the answer to that, I think, is largely driven by the nature of the growth opportunities we see that become available over the next 12 to 18 months. We're not going to grow for growth's sake. They have to fit with us strategically and meet our financial objectives. Again, we feel there will be a number of opportunities out there. We are pursuing a number of development opportunities that will require potentially higher financing than we've experienced previously, to the extent we exceed our typical growth target. But to your point, if we see strong recovery in Alberta prices, which is what our expectations are, certainly that will generate materially more cash flow, and we would re-evaluate the DRIP at that point in time.

Maurice Choy

Thanks, and my second question, and this relates to obviously the growth initiatives that you have. Very quick succession of Whitla 3 and Strathmore Solar announcements alongside another renewable project by way of Buckthorn. Is this, I suppose, a trend that we should be looking at in terms of what's in the pipeline? Obviously, high contracted percentage for EBITDA purposes, but also predominately renewable energy and a mixture of U.S. and Alberta specifically.

Brian Vaasjo

In respect of the growth initiates that we've been successful this year, I would say that is indicative of our development pipeline. We are finding that through increasing search for effective sites and efficient development sites, we've been fairly successful over the last year or so, and we do anticipate that you can expect more on the development side in terms of renewable projects in both Canada and the United States. So, again, this is indicative of what you can expect over the next little while. We have found that we are tending to be increasingly competitive in the market in terms of delivering relatively low cost per megawatt hour.

Maurice Choy

Does that mean that thermal generation, beyond obviously what you currently have in your portfolio, thermal generation is slightly lower on the pecking order, if not entirely off?

Brian Vaasjo

No, no, I wouldn't say that. A lot of it is dependent upon the results or the opportunities that we see in front of ourselves through the pandemic. A lot of the development activities have continued, whereas the number of opportunities to acquire midlife natural gas assets decline temporarily fairly significantly. So, a lot of it is dependent upon the opportunities we see in front of us. Having said that, our general preference is to develop, build renewable projects.

Maurice Choy

That makes sense. Thank you very much.

Operator

Thank you. The next question comes from David Quezada from Raymond James. Please go ahead.

David Quezada

Thanks. Good morning, everyone. My first question here, just to follow up on Strathmore. Wondering if there's any colour you could provide on the percentage of capacity that you'll look to contract there, and wondering if there's any potential for you to include Strathmore in contracting discussions on the Whitla projects that you're looking to find an offtaker right now? Does the combination of those, the generation profile of those assets, is that an avenue you could pursue?

Brian Vaasjo

With the projects, there's a number of opportunities emerging in Alberta for longer term contracts with the C&I customers, and they are all over the map in terms of time period, in terms of some of them want both wind and solar. Some just want wind, some just want solar, and we believe our projects are competitive, and what we've seen in the market confirms that.

We have no target percentage on either of these projects who are, I guess, the three Whitla 2 and 3 and Strathmore Solar. We have proceeded with those projects based on them meeting the hurdle rates for merchant generation in the province. We felt that it needed to meet that standard so that we were comfortable with then pursuing contacted opportunities around them.

Again, we'll see what percentage we can get contracted from those facilities, and again, we seem to be pretty competitive in the market right now. But again, we have no specific target as to how much we want to have contracted. We'd obviously like them to be 100% contracted, and we'll see where we get to.

David Quezada

Okay, great. Thank you. That's helpful. Then just maybe one more for me…

Operator

Please go ahead. Mr. Jarvi, your line is live. Please go ahead, sir.

Mark Jarvi

Sorry, I had a bit of static. Didn't hear that. Maybe just, Brian Vaasjo, can you just come back to the management shuffle and just talk a little bit about how that shapes your view on capital allocation and asset mix, and maybe just kind of elaborate a little bit more on sort of your renewed vision for where Capital Power's going in terms of capital deployment.

Brian Vaasjo

So, in terms of capital deployment, the realignment in terms of our executive responsibilities, don't believe is impacted by a forward view of capital deployment. Certainly, with a stronger focus on ESG and our commitment to the various areas of ESG does result, in time, some influence towards greater renewables, lower emissions profile, whether that be through carbon capture and storage, or carbon conversion, or renewables. Certainly, we expect some growing direction from that perspective, and again, that's why we've reinforced that area and, in fact, given it significantly more focus in the organization, but it's not reflected of a more immediate change in terms of capital allocation.

What it does signal though is that we believe that we will be more efficient and effective as we go forward. Of course, we believe we were, again, very efficient and effective, historically, but we think this will take us to a higher level given the natural alignment between the areas and greater focuses in Bryan DeNeve's area. He's restructured it so that there is a very, sort of, laser focused group looking at development and acquisitions going forward, and then another group that, again, is laser focused on the enhancing of value of existing assets as well as some development opportunities on the commercial side.

For example, one of the things that it reflects is an increase in focus on origination in the pursuit of C&I customers, for an example. So, it does have some implications, but it's more the focus and, again, enhancement in some areas that we think will result in greater performance as we move forward.

Mark Jarvi

Okay, and then there's been some reports out there that this Cascade 900-megawatt combined cycle plant might move forward and then certainly some financing that you can't control what others do from adding new supply. But from your context, what do you think this could mean for power prices or for the standard for best gas and implications for your own fleet?

Bryan DeNeve

Certainly, we monitor the Alberta market very closely in terms of how new supply is progressing through the development process. We're confident in the Alberta market that the price signals there will result in the most competitive generation being built, but also that you will see other decisions made in terms of what's economical to do with some of the older generation in the province. We're in a much better place where we're going to see supply decisions being made on a commercial basis in response to what's seen being built as new facilities.

So, if Cascade does proceed, we believe that will have a follow-on effect in terms of decisions that are made with some of the older generation, which will be further out of the market as a result of that, and we'll see their utilization drop dramatically. Very confident that the market will maintain an appropriate supply-demand balance and will continue to produce proper price signals as we move forward.

Mark Jarvi

So fair enough to say then on your comments there, Bryan, that you think where you sit on the merit curve with those Genesee units, you're far enough away from whatever incremental, or what kind of generation currently in the market could be displaced by this facility if it came online?

Bryan DeNeve

Yes, that's correct. The Genesee units, with the exception of Keephills 3, are the youngest units in the fleet. We're moving to dual fuel capability, which allows us to optimize around fuel cost between natural gas and coal, but it's the age of the facility that is critical. So, out of the legacy fleet, they have the lowest heat rate and are most efficient and lowest in the stack. I think as you have new supply come on such as Cascade, that's going to have implications for those older units that are higher in the stack, and we would see a modest impact on the utilization of our Genesee facility.

Mark Jarvi

Okay, and then coming back to the implementation of the DRIP and prior comments that you guys could largely internally finance up to $500 million in investments a year. You kind of put the Strathmore budget and the Whitla budgets together here, and then obviously putting any third party M&A aside, could you exceed $500 million on an organic investment basis over the next 12 months from other development activities you guys have on the go here? Is that the read through on the rationale for the DRIP, or is it the fact that you think there will be some M&A coupled with some increased development activity?

Bryan DeNeve

Well, certainly on the development side, as Brian Vaasjo was mentioning, we're pursuing opportunities on a number of fronts and believe there's a high probability that we'll see some of those come to fruition. But also, we are also looking at opportunities on the M&A side. Again, we believe over the next 12 to 18 months it'll be fairly active on the growth side, and a good chance that we could exceed that $500 million target. Hence why we're taking those steps with the DRIP.

Mark Jarvi

Okay, and my last question just on Decatur. Any update on status and timelines for maybe getting a new contact extension done?

Brian Vaasjo

The process has continued, and I would say that we would expect to come to conclusion almost any day now.

Mark Jarvi

Okay. All right, we'll watch for that then. Thanks, guys.

Operator

Thank you. Once again, if you have a question, please press star, then one on your telephone keypad now.

The next question comes from Patrick Kenny from National Bank Financial. Please go ahead.

Patrick Kenny

Good morning, everybody, and congrats to Sandra, Bryan, and the rest of the team.

On Strathmore, can you just remind us if the 40 megawatts is the ultimate capacity of the site, or can you explore Phase 2, Phase 3 opportunities depending on the level of interest in offtake contracts, and maybe the ultimate value of carbon credits? Maybe you can confirm if there's any upside to that $5 million EBITDA guidance, if the carbon tax does go up to $50 a tonne from $30 today?

Brian Vaasjo

The 40 megawatt capacity pretty much takes up the footprint at the site. There may be opportunity for a modest increase, but again, that generally is the site capacity. As we sort of look forward and the increasing potential increase in carbon tax etc., obviously, as the carbon tax builds up, it does create a bit of upside associated with the returns on that facility.

Patrick Kenny

Okay, so sounds like you can grind down on that 10 times build multiple a little bit, and I guess coming back to other questions around the DRIP, with you guys trading at, let's say, 7, 8 times today, do you expect your future growth opportunities that you're going after to bring down that weighted average capital deployment multiple more towards where you're trading, or is the strategy simply to absorb a modest level of dilution today, as you said, in exchange for accelerating the business mix more towards renewables and the hope that the market will re-rate your valuation up towards your build multiple?

Bryan DeNeve

Yes, certainly it's a combination of those factors that you've mentioned, Pat. To the extent we have been focused on contracted opportunities and development opportunities, one of the things we've demonstrated over the last five years or even longer is our ability to bring in development projects below budget, target budget, and at times bring them on early relative to schedule. So, that's a value add that we typically bring to the table and result on those projects that lifts the economics.

The other thing is, yes, we see the benefits of increase in contract percentage, and increased diversification that will increase our trading multiple in the market and will ultimately get realized through a higher share price. That is the effect we're looking for, as we do add more contracted opportunities to our portfolio.

Patrick Kenny

Okay, got it. Just the last question from me, guys. I see the decommissioning provision is up another $30 million or so since the end of March. Looks like $100 million, $445 million from year-end levels of about $355 million. Can you just confirm how much of that increase is related to, say, an uptick on the obligations related to the coal mine versus just simply adding new assets to the portfolio?

Bryan DeNeve

Yes, about $6 million of that is a result of the addition of the Buckthorn facility earlier this year. The balance of it is really driven by a lower discount rate as a result of the low interest rate environment, so just increasing those future obligations when you discount them.

Patrick Kenny

Right, okay. That makes sense. Thanks, Bryan.

Operator

Thank you. The next question comes from Andrew Kuske from Credit Suisse. Please go ahead, sir.

Andrew Kuske

Thanks. Good morning. A question as it relates to, I mean, the current environment we're in with COVID-19 and just the impact it's had on demand curves by multiple markets, but the gist of the question is really focused on has there been any fundamental change to your outlook in Alberta's own power market transition as we go to the PPAs and a more competitive market.

Then the second part of the question really relates to contracting facilities that you've got more outside of Alberta, and I know you mentioned earlier on about Decatur maybe coming within a few days, but has anything really structurally changed on that side of it too, given the current environment?

Bryan DeNeve

Yes, so, in terms of the impact of demand in Alberta, we have seen a hit—a high point of demand destruction, and certainly we're starting to see that come back now as the province reopens. There is some of that demand destruction, of course, is related to the oil and gas industry. That may take a little bit longer to come back, but I think a key element here is, like you were saying, Andrew, is how the market will function once we have the full expiry, the PPAs at the end of this year.

So, certainly, for those of you who have been watching the Alberta market over the last several days, we've had fairly high temperatures in the province, and very strong pricing. I think that is what you can see, as the market working, providing signals, that the shortage of supply, there's some derates, and that is a dynamic we would expect will continue into 2021, and will get amplified as the last of the PPAs expire at the end of this year. So, that is one of the key reasons why we view 2021 on a more bullish perspective than where current forwards are trading.

Andrew Kuske

Okay, that's great, and I guess that's also, not as a jab, but that's fairly high weather and high degrees by Alberta standards.

Bryan DeNeve

That's right.

Andrew Kuske

I guess, I want to make sure of it, as it relates to Alberta, that explains why you're just so open on your contractive position in the commercial portfolio.

Bryan DeNeve

That's right. If you go back I think about 12 months ago, we saw fairly low prices, like sub 50s in 2021. There was a very large gap between our views on 2021 and where forwards were. So that was a factor in decisions we're making on selling forward. Fortunately, we've seen those prices recover back into the 50s, so certainly not the same degree of gap that we saw. So, as we expect—as liquidity improves and builds through the year, that'll put further upward pricing on 2021 and create additional opportunities to sell forward.

Andrew Kuske

Okay, that's great. Greatly appreciated.

Operator

Thank you. The next question comes from John Mould from TD Securities. Please go ahead.

John Mould

Morning. I'd like to go back to midlife gas acquisitions. We've all seen that Joe Biden is proposing a carbon emission free electricity system by 2035, and that does include support for carbon capture and utilization technology, but I'm wondering how this potential policy shift informs how you look at potential midlife gas acquisitions in the U.S.

Brian Vaasjo

Certainly, we're watching fairly closely. Again, a lot of it is dependent on the specific asset and the specific market. I would say broad sweeping drive in the U.S., politically driven through incentives can have an impact on some markets very significantly. In other cases where you don't have a natural renewable base where you are dependent on natural gas for specific types of service to either the grid or time of day, we expect that those assets will definitely have a prevailing life. And, if you look at 2035, and one of the reasons why we're looking at midlife assets is simply because we don't see that the time frame will, without things such as carbon capture and utilization, we don't see a life well, well beyond 2035 or 2050. So, that's again why we are focused on midlife natural gas assets in specific markets, and with specific characteristics. So, again, those policies can have an impact on the natural gas fleet. We don't believe that it would have material impact on the assets that we have, nor the kinds of assets that we look at.

John Mould

Okay, and then just maybe moving along on that utilization front, I don't think I saw anything updating us in the report on C2CNT and its progress. Is the expected one quarter delay that you articulated in the Q1 call resulting from COVID-19 still consistent with your expectations there?

Brian Vaasjo

Yes. It might slip another month or so, but Professor Licht and his team are back on site. They're moving forward with the ramping up of the manufacture of carbon nanotubes at a higher scale, and that's well in progress. Work is continuing to develop the appropriate carbon nanotube, and medium associated with the cement business or concrete business, so everything is sort of back on track, or getting back on track. But again, it will be a three month or four month delay relative to our initial expectations.

John Mould

Okay, thanks. Maybe just one last thing on the East Windsor steam contract. I appreciate that PPA doesn't expire until the end of the decade.

Are there any opportunities on the cogen front for that facility given the contract for steam expired in Q2?

Brian Vaasjo

No, we don't—go ahead, Bryan.

Bryan DeNeve

Yes, no, I think I was going to say the same thing you were, Brian. Probably not alternatives on the cogen side, but we are looking at other ways to optimize the operation of that facility.

John Mould

Okay. Great. I'll leave it there. Thank you very much.

Operator

Thank you. The next question comes from Naji Baydoun from Industrial Alliance Securities. Please go ahead.

Naji Baydoun

Hi, good morning. Just one question on renewable power projects. Historically, you've been focused more on the wind side of things. Now, with the Strathmore project, and your earlier comment on maybe accelerating investments in renewables, can you give us any details on what your solar pipeline looks like today, and what are the opportunities that you're pursuing in the solar space, or you will be pursuing in that space going forward?

Brian Vaasjo

On the solar side, we've been cautious. I think as we've been commenting for the last 18 months, or actually longer, we do see that solar is, obviously, a very significant source of energy in North America, and increasingly so, and we felt that we needed to be part of that development. So, we have been slowly trying to develop the expertise, we've become competitive, both in terms of construction processes and our approach to putting projects together.

As it sits today, obviously, we're moving forward with Strathmore which, in the Alberta context, it is very competitive. We've participated in some activities in the U.S., and we are feeling that we are definitely moving forward and will be competitive in the U.S. as well. We don't have a large pipeline of renewable projects, again, simply because we thought we'd make sure that we were competitive, and although our pipeline is growing, and certainly if it is robust today, as it is on the wind side. But it will grow as we prove our competitiveness, we will be significantly expanding that pipeline. Again, simply we didn't want to get out of our skis before we'd proven to ourselves that we were competitive.

Naji Baydoun

Thank you for the details.

Operator

Thank you. This concludes the question-and-answer session.

I would now like to turn the conference back over to Mr. Randy Mah for any closing remarks.

Randy Mah

Okay, thank you, Carl. If there are no more questions, we will conclude our conference call. Thanks again for joining us this morning, and for your interest in Capital Power. Have a good day, everyone.

Operator

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