

**Capital Power**  
**Q3 2020 Results Conference Call**  
**November 2<sup>nd</sup>, 2020**

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**Corporate Participants**

**Brian Vaasjo**

President and Chief Executive Officer

**Sandra Haskins**

Senior Vice President, Finance, and Chief Financial Officer

**Randy Mah**

Director, Investor Relations

**Conference Call Participants**

**David Quezada**

Raymond James

**Patrick Kenny**

National Bank Financial

**Robert Hope**

Scotiabank

**Mark Jarvi**

CIBC World Markets

**Andrew Kuske**

Credit Suisse

**Ben Pham**

BMO Capital Markets

**John Mould**

TD Securities

**Maurice Choy**

RBC Capital Markets

**Naji Baydoun**

Industrial Alliance Securities

**Operator**

Welcome to Capital Power's third 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, November 2, 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 third quarter 2020 results which we released earlier this morning. Our third 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 Sandra Haskins, Senior Vice President, Finance, and CFO.

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 number 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 third 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. First, I want to recognize the efforts of our employees who work at our facilities and those who continue to work remotely during the COVID-19 pandemic in helping to achieve strong operating performance and financial results that were in line with Management's 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. We continue to execute our growth strategy with continued progress on renewables and sustainability.

In October, we signed a 20-year PPA for three new solar projects in North Carolina in support of our goal to be net carbon-neutral before 2050, which I'll discuss shortly. We've increased our investment in C2CNT from 9% to 25% following our due diligence that demonstrates C2CNT technology produces quality carbon nanotubes on a consistent basis and is scalable. C2CNT is a strategic investment that creates environmental benefits in line with our sustainability strategy. We have an equity option to further increase our equity investment to 40% at the end of 2020.

We completed three initiatives that provide the Company with financial stability. We completed our longest-dated and lowest coupon transaction in the Canadian market when we raised \$350 million from a very successful 12-year medium-term note offering at very attractive interest rate of 3.147%. This successful MTN transaction signals market confidence in our credit quality and long-term strategy.

In August, we executed a 10-year tolling agreement for our Decatur Energy Centre in Alabama which supports our mid-life gas asset strategy and our view that natural gas generation, along with carbon capture, utilization, and storage technology will continue to play a critical role.

And we reduced our wind service and maintenance costs by an estimated 26% compared to our current agreement by completing the transition to 10-year long-term service agreements with Vestas for the maintenance of our Vestas-equipped wind facilities, which totals over 1,200 megawatts of capacity.

Turning to Slide 5. As mentioned, we've extended the tolling agreement on our Decatur facility for an additional 10 years, which now expires in December 2032. Since our acquisition of Decatur in 2017, we commenced upgrading the combustion turbines to increase capacity, reduce

emissions, improve the heat rate, and to maintain reliability. We've increased the capacity by 60 megawatts from the upgrades on two of the three combustion turbines. The third combustion turbine will be upgraded next year, adding another 30 megawatts of capacity.

As part of the tolling agreement extension, we received payments for 34 megawatts of additional capacity immediately and up to an additional 79 megawatts of capacity in 2021. The expected financial contribution from the contract extension will add significant value in the remaining years of the current contract that expires in 2022 and during the 10-year extension.

When we acquired Decatur, we believed we had a high probability of re-contracting based on its history of re-contracting and the need for this facility in the region. This 10-year PPA extension validates our acquisition strategy of acquiring mid-life contracted natural gas assets that have a positive re-contracting outlook and have value beyond the current contract term. We focus on the right assets in the right markets providing the right service.

Turning to Slide 6. A key part of our strategy and meeting our goal of being net carbon-neutral before 2050, is growing our renewable assets. We continue to demonstrate our competitiveness in renewable development projects in the execution of 20-year PPAs in October for three renew solar development projects in North Carolina with Duke Energy Carolinas. The projects are Hornet Solar, Hunter's Cove Solar, and Bear Branch Solar, with a combined capacity of 160 megawatts.

We expect construction for all three projects to begin in late 2021 or early 2022 with an estimated capital cost of \$260 million with commercial operations starting in the fourth quarter of 2022. The three solar projects combined are expected to generate \$23 million in Adjusted EBITDA and \$5 million of AFFO annually on average in the first five years. The 20-year contracts strengthen our contracted cash flows and will increase the overall average remaining life of our contracted facilities.

We currently have six renewable projects in advanced development or under construction totaling approximately 350 megawatts. By the end of 2022, our renewables capacity will grow to 23% compared to 16% at the end of 2019. I will now turn the call over to Sandra.

### **Sandra Haskins**

Thanks, Brian. I'll review our third quarter financial results starting on Slide 7. Revenues and other income in the third quarter were \$453 million, down 12% compared to the third quarter of 2019 mainly due to the unrealized changes in fair value of commodity derivatives and emission credits and the lower Arlington Valley toll contract.

Adjusted EBITDA was \$284 million, unchanged from a year ago. The additions of Cardinal Point, Whitla Wind 1, Buckthorn Wind, and strong trading performance were offset by the Arlington Valley toll decrease. Normalized earnings of \$0.66 per share were up 10% compared to \$0.60 per share in the third quarter of 2019. We generated \$221 million in AFFO that was slightly below the \$225 million in the third quarter of last year, and AFFO of \$2.10 per share was unchanged year-over-year.

Slide 8 shows our financial performance on a year-to-date basis compared to the same period in 2019. Revenues and other income were \$1.4 billion, up 11% year-over-year, mainly due to stronger portfolio optimization performance, contributions from renewable additions, and additional months of operations at Goreway.

Adjusted EBITDA was \$735 million, up 9% compared to 2019, primarily due to the acquisition of Goreway and renewable additions that was partly offset by the Arlington Valley toll decrease. Normalized earnings of \$1.09 per share was up 4% from a year ago. We continue to generate strong AFFO, including \$436 million in the first nine months of the year that was up 2% year-over-year. AFFO per share was \$4.14, up 1% from the same period in 2019.

Turning to Slide 9, overall, the third quarter financial results were in line with our expectations. Our trading desk continues to

create value by capturing realized power prices above spot power prices.

In the third quarter, the average realized power price of \$59 per megawatt-hour was 34% higher than the average spot of \$44 per megawatt-hour. The low spot price in the third quarter reflected lower market demand from reduced oil and gas production and the impact from COVID-19, and softer pricing from a stable base load supply, strong hydro and wind generation, and moderate temperatures.

With respect to the Line Loss Rule Proceeding, we have recorded a provision of \$18 million to date. We have received the first of three invoices, and the payment for the first invoice is due by the end of 2020 and it will have a \$6 million impact to AFFO. The payments for the second and third invoices will be due in the first half of 2021.

I'll discuss the Alberta power market in more detail with respect to the COVID-19 pandemic as shown on Slide 10. The chart shows the year-over-year comparison of the internal load demand based on the actual 30-day rolling averages, and therefore, has not been normalized for weather or other events. For example, the higher demand in February 2019 was driven by extreme cold temperatures in Alberta.

As you can see in the chart, COVID-19 was declared a pandemic on March 11. Following that, power demand in Alberta started to decline in early April following various shutdowns in the province and continued to decline throughout the month of May. The largest year-over-year decline in power demand was about 7%. Demand started to recover in June as the economy reopened and closed the gap towards approximately 2% decline in October year-over-year. At the current rate of recovery, we expect demand to be at pre-COVID-19 levels late in 2021, and that further demand disruptions would be addressed by disciplined supply response.

Turning to Slide 11, I'll provide an update on our commercial portfolio positions. For the remainder of 2020, our base load generation is substantially hedged. At the end of September, we're 13%

hedged for 2021 at an average contract price in the high \$50 per megawatt-hour range. The lower hedge position in 2021 is due to lower than normal liquidity and the gap between our fundamental pricing view and forward prices.

The low liquidity for next year relates to the uncertainty from the expiry of the Alberta Balancing Pool PPAs and corresponding transfer of market share offer control to commercial entities, the continued impacts of COVID-19 and oil price reduction on demand, and carbon pricing.

With low liquidity, forward prices have been slow to respond. However, since the end of the quarter, liquidity has started to improve, and forward prices are strengthening. Current forward prices for 2021 are around \$55 per megawatt-hour compared to \$51 throughout Q3. Therefore, as we see forward prices continue to rise, we would increase our hedging activity in the fourth quarter, but expect the percentage hedged entering into next year will be lower than it has been in recent years.

For 2022 and 2023, we're 18% and 12% hedged at an average contract price in the low \$50 per megawatt-hour range for both years. Current forward prices are in the low \$50 per megawatt-hour for both 2022 and 2023. I'll now turn the call back to Brian.

### **Brian Vaasjo**

Thanks, Sandra. Slide 12 highlights the progress on our committed capital for growth. To date, we've announced six renewal projects this year that will add 355 megawatts. This includes the acquisition of Buckthorn Wind in Texas, which was acquired in April. We're building two renewable development projects, Whitla 3 and Strathmore Solar in Alberta, and we're building the three solar projects in North Carolina which I mentioned earlier. Overall, we've committed \$592 million in capital for growth this year in the renewable space; solid growth and a step towards our goal of being net carbon-neutral before 2050.

I'll conclude with an update on our performance versus our 2020 annual targets as shown on Slide 13. Our average facility availability in the first nine

months is 94% compared to the 93% annual target. With major planned outages already completed and with the deferral of the Genesee 2 planned outage to 2021, we expect the average availability to be slightly above the annual target.

Sustaining capex is \$50 million year to date. With the deferral of the Genesee 2 outage, we expect sustaining capex will be below the \$90 million to \$100 million annual target.

Adjusted EBITDA is \$735 million year-to-date. Based on our current forecast, we expect 2020 Adjusted EBITDA will be above the midpoint of the \$935 million to \$985 million target range.

We generated \$436 million of AFFO year-to-date compared to the \$500 million to \$550 million target range. We are on track to be near the midpoint of the AFFO range excluding the impacts of the Line Loss Rule Proceeding.

As previously highlighted, we've had an excellent year for growth with \$592 million of committed capital that exceeds our annual growth capital target of \$500 million.

Finally, we have development and construction targets for the Cardinal Point and Whitla 2 Projects. We completed the Cardinal Wind project on schedule in March and within the U.S. dollar budget range. With the Whitla 2 project, it's currently tracking on budget and on schedule for commercial operation in the fourth quarter of 2021. In summary, a strong quarter of operations and financial results highlighted by the Decatur Centre 10-year PPA extension and excellent strategic growth in renewable development projects. I'll now turn the call back over to Randy.

### **Randy Mah**

All right. Thanks, Brian. Anastasia, we're ready to take questions.

### **Operator**

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 first question comes from David Quezada with Raymond James. Please go ahead.

**David Quezada**

Thanks. Morning, everyone. My first question here just on the Decatur contract extension. I'm just wondering if you can just provide some—maybe some perspective on how the terms worked out maybe compared to what you had expected at the time of the acquisition back in 2017, and any commentary, I guess, specifically on how it would have affected the returns that you expected on that acquisition at the time.

**Brian Vaasjo**

When we acquired the Decatur facility, we certainly expected that we would be re-contracting that facility, and so from that perspective, that came to fruition. In looking at the particulars, although we had expected and saw that there was an opportunity to expand the capacity of the facility and potentially increase the—or decrease the heat rate, we weren't precisely clear as to what we expected in terms of an outcome, so it was identified as a possibility.

As you can appreciate, we've put a lot of capital into that facility, and what I can say is, overall, the return on our existing investment, and with the additional facilities, it's consistent with our general expectation of returns on the project. But it is different in nature and form than we would have anticipated at the time of the acquisition.

**David Quezada**

Okay, great. Thank you for that, and it would be great to hear your broader thoughts on further natural gas mid-contract life M&A. I know over the past couple of quarters, you've mentioned that activity in that market has been lower. Have you seen that come back at all? I'm just wondering what your thoughts are on the state of things there.

**Brian Vaasjo**

The market continues to be relatively slow compared to prior years and compared to our expectations. We continue to hear that there are a number of opportunities out there that haven't come to market yet, so we'll wait to see what happens.

In terms of our view, as I said earlier in the presentation, it boils down to is there an asset opportunity out there that makes sense in markets that work for us and that one can have a view of long-term contracted ability. And also a very important element is whether or not the particular power facility has the attributes that are either unique in the market or are very deep in terms of if there is a stack of facilities providing that same service.

We do expect natural gas generation, as it exists today from the straight energy perspective, to decline a bit over time, and certainly, we don't want to have one of those facilities that is simply generating electrons, because at some point in time it won't be re-contracted. But we continue to look at a number of markets and anticipate various opportunities coming forward, so do expect that there will be further mid-life natural gas acquisitions in our future.

**David Quezada**

Thank you for very much for that colour. I'll get back in the queue.

**Operator**

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

**Patrick Kenny**

Yes. Good morning, everybody. Brian, I didn't see anything in the release on your application to repower Genesee 1 and 2, so maybe just get your thoughts on how you're thinking about moving forward with construction by next summer and bringing on another, call it, 600 megawatts of supply into the market especially in the context of, I guess, Cascade coming on by 2023 as well, not to mention Suncor's co-gen potentially a couple of years later, and if you have any preliminary capital cost estimates for the project, that would be great.

**Brian Vaasjo**

As you know, the first step in moving forward on a project like this is to go ahead on the permitting side, which we've done. We're continuing to develop the project, develop the capital costs, although we're getting much closer to having all the necessary pieces of a project in order to do things like seek Board approval and announce it's moving forward. As we look at the market outlook, and there is capacity coming into the market, but we expect there would be a significant supply response associated with new natural gas units coming into the market.

What I can say about what we're looking at in terms of the assets is they are extremely efficient. We expect that they'll be the most efficient in the market, and their capital cost is very low utilizing existing facilities, so I would say you can expect that both units would be certainly below a billion dollars in terms of putting them in place.

So far, so good in developing the project, and again, we do expect that there would be a supply response in the market, and we'll be continuing to monitor, and at some point, we may well announce that these two repowerings are moving forward.

**Patrick Kenny**

Okay. That's very helpful, and what role do you see Genesee playing longer term in the province's goal of becoming a leading producer of blue hydrogen? I know it's still early days, but maybe you can just confirm if you'll be applying for the 12% capital cost grants that were announced on Friday.

**Brian Vaasjo**

We're still looking at that and its relation to Genesee and what can potentially be done there, so it's definitely in a repowering scenario, it can make a lot of sense a lot sooner. The two units that we're looking at repowering out of the box will be 30% carbon-ready, and with a very modest investment of around—less than \$10 million a unit, they can be as much as 95% hydrogen-ready. So we'll be ready for when the economics and the value is there to move to blue hydrogen

or green hydrogen, whichever happens to be available at competitive pricing.

**Patrick Kenny**

Great. Okay. Sounds like lots of good stuff on the go at Genesee. Maybe just for Sandra here, on the back of your recent successful bond refinancing. How are you thinking about tapping the green bond market going forward just given some of your recent and, I guess, upcoming investments into new renewables? Could you look at green bonds for, say, refinancing your 2021s next year?

**Sandra Haskins**

Thanks, Pat. Yes, so we continue to look at both green bonds and sustainability-linked bonds and give both considerations to that, and I think as we continue to build out our integrated reporting in our ESG targets, that fits very nicely with being able to execute fairly seamlessly on a sustainability-linked bond.

We have had some discussions around the refinancing next year and whether that would be an opportunity to do it, so we'll continue to monitor that. We do see that it—that that will be in our future, whether it is a project-level green bond or a balance sheet financing using sustainably-linked metrics.

**Patrick Kenny**

Okay, great, and I know you'd previously run the math at looking to crystallize the value of your off-coal payments. Have you taken another look at that recently just to see if that might make sense and allow you to potentially turn the DRIP back off?

**Sandra Haskins**

We haven't looked at that recently, but I think we would be of the same view that there's not a lot of upside to crystallizing that. With the DRIP, we do have a lot of internal spend on our current assets, as well as some development projects, so that just seemed to be an efficient way to generate equity to fund that, so I think we'll continue with that for the foreseeable future.

**Patrick Kenny**

Okay, great. Appreciate all the comments. I'll leave it there.

**Operator**

The next question comes from Robert Hope with Scotiabank. Please go ahead.

**Robert Hope**

Morning, everyone. First question's just on the Alberta power market outlook, and just we did see you increase your overall hedge position there. As we've moved through October with the volatility in the pricing that we've seen, are we getting towards your kind of notional view of what 2021 looks like, and overall, is the market behaving as you would expect, and is it just a view that the forward market's not reflecting the fundamentals?

**Sandra Haskins**

Yes. I think what our expectation was in Q3 that with the RRO auctions starting in September, that we would start to see an increase in liquidity and pricing, but that didn't happen through the end of the quarter, but as you mentioned, we are starting to see prices move upwards in the last couple of weeks. So it's currently at \$55 a megawatt-hour, and market participants are starting to take a price view, but yes, we would expect to continue to see forwards move to be more in line with our expectations, so we still think that there's a bit of a gap even at \$55, but starting to see some momentum in the right direction in Q4.

**Robert Hope**

I'm sorry. It kind of appears that your kind of fundamental view of 2021 is kind of what, high \$50s, then?

**Sandra Haskins**

That would be generally in the range, yes.

**Robert Hope**

Okay, and then just south of the border, any commentary on kind of the potential to kind of extend the life of Southport just given some permitting challenges there, or kind of what is the strategy for that unit?

**Brian Vaasjo**

As we look forward—and we have, for a couple of years, looked at re-contracting those facilities, both Southport and Roxboro, as well as there were other entities in the market who were looking at potentially buying those assets and utilizing a different nature of fuel, and so on, and unfortunately, neither re-contracting nor selling those assets came to fruition, so our expectation is that next year those facilities will likely cease operations.

**Robert Hope**

All right, so including Roxboro, not just Southport?

**Brian Vaasjo**

That is correct.

**Robert Hope**

All right. Thank you.

**Operator**

The next question comes from Mark Jarvi with CIBC. Please go ahead.

**Mark Jarvi**

Yes. Thanks. Good morning, everyone. First question is just on the portfolio optimization revenue. Can you give us a split of how much comes from power sales and how much, maybe, in a quarter like this lower generation do you resell gas for profit?

**Sandra Haskins**

Yes, so I think that the natural gas optimization was about \$9 million in the quarter, and the rest would have been from power optimization.

**Mark Jarvi**

Okay, and just on the gas costs, I think it says in your disclosure that you're substantially hedged or largely hedged on your fuel costs for 2021. Can you give us any sort of direction of where you are relative to where gas forward prices are for 2021; just how much of a buffer you've created versus where the spot market has gone. And in longer term, if you guys are thinking about extending the duration of any gas hedges or procurements?

**Sandra Haskins**

Our gas procurement is dependent upon our coal-to-gas conversion, timing, and gas usage in general, so we have locked in prices for most of next year on natural gas at a price that is below where the current forwards are, so still around that \$2 a gigajoule range.

**Mark Jarvi**

Okay. That's very helpful. And a question around the solar projects in the Carolinas. Can you give us some background in terms of how you got involved in those projects and what stage, and given that it's also competitive for renewable projects in the U.S., would you guys look to continue to hold your equity interest all the way through to the end-of-life, or would you consider like a sell-down to enhance return?

**Brian Vaasjo**

The history behind those three solar projects is that there was a competition—an RFP out by Duke Carolinas for 600 megawatts of renewables. We, through some relationships, and we are in North Carolina, and actually have a solar farm there, so we have some profile in the state, and we teamed up with a junior developer who had some projects, and we went through due diligence and came to the conclusion that these three projects had a very good probability of moving forward, so from almost nine months ago started working to prepare a bid, and put sort of our best foot forward, and we were successful on the three projects that we put forward.

In terms of sell-down, and our view of the renewables portfolio that we have on both sides of the border is there is significant value there, and at times, whether it's looking for a source of capital or when we look at optimizing the returns that we get from assets, we would certainly consider selling down projects to a lower level of interest. In all likelihood, if we were going in that direction, we'd bundle one or two projects together and have those as a package, because we would, again, look for more of a strategic purchaser; somebody who—obviously a financial entity that would work with us on a couple of projects, and, as we move forward, would be somebody who would be a natural buyer of other interests of ours. So do believe that sometime in

our future we will look to selling down our interests, again, when there's a capital requirement, where, as you say, to optimize the returns associated with that particular project.

**Mark Jarvi**

Okay. Thanks for that, Brian, and my last question, just going back to Pat's question about Genesee and repowering, can you guys remind us what the useful life is or end-of-life assumption would be around conversion versus repowering, and where you guys are in terms of clarity on useful life?

**Brian Vaasjo**

When you look at the useful life as it relates to repowering, we're kind of looking through a lens at maybe another 20 years in terms of the economics of that kind of a facility. However, I would have to emphasize that moving to hydrogen, or carbon capture and utilization would significantly extend that life beyond the 20 years. So again, just in a—kind of a status quo world, we would see a 20-year life as a reasonable economic expectation.

When you look at dual fuel, we would see that as being potentially a little bit shorter, but as we've said since—for the last couple of years, our view is that eventually those units would turn into a repowered facility at some point in time, and it was just a matter of when.

**Mark Jarvi**

Okay. Thank you.

**Operator**

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

**Andrew Kuske**

Thanks. Good morning, so probably a two-part question to start, and that's really with just natural gas prices rising, how do you think that changes market dynamics with the market transition on Jan 1, and then also related that is just your ability to engage in longer-term contracts within the province?

**Sandra Haskins**



With respect to the first part of the question for natural gas prices and the dynamics, so what we've seen coming through this year with higher natural gas is just lower utilization of our gas facilities, but expect that, at some point, we'll see rises in pricing that'll bring those spark spreads back and be able to utilize our plants in a more historical fashion. But as far as long-term natural gas hedging, I don't know, Brian, if you want to answer that question.

### **Brian Vaasjo**

We've looked at long-term hedging associated with natural gas, and certainly, when we're in a dual-fuel world, that can make that a little bit difficult, because what we don't want to do is just straight speculate on the price of natural gas as opposed to hedging natural gas for what we expect to be our own use. And we have looked at, again, from time to time if there's some portion that we could enter into a long-term hedge arrangement, and we've concluded that at least for the time being, that's a strategy that, with the volatility in the market, doesn't necessarily work in our favour. Having said that, we have gone out two and three years and hedged significant portions of our anticipated natural gas demand, and we'll continue to do so.

### **Andrew Kuske**

Okay. That's helpful, and then my second question really just relates to renewable valuations we've seen on the market; obviously, very topical. You've got a fairly large renewable portfolio of your own, and then I guess the question is really directed to Sandra. Do you think about re-jigging the way you present your financials, highlight that embedded value in the company to a much greater degree?

### **Sandra Haskins**

Yes, we've actually had that conversation around whether or not we start presenting in that exact way, and in some of our presentation decks, we do actually break out our EBITDA by fuel type, so it is something that we are sort of evolving towards and will give more consideration to in our MD&A and other reporting materials going forward.

### **Andrew Kuske**

Okay. That's great. Thank you.

### **Operator**

The next question comes from Ben Pham with BMO. Please go ahead.

### **Ben Pham**

Hi. Thanks. Good morning. I had a follow-up question on the Gen 1, 2 repowering. Obviously, you're going through the public stakeholder process now. You're filing an application late this year. I'm wondering is the plan similar to peers where you look to layer on some contracts on these re-powerings? Are you open to spot, and then the second part of it is, is the capex you quoted seems, or is dramatically lower than one of your peers. I think it's almost 30%, 40% lower, so is this really just the age of the facility, or is it your relationships with the suppliers that's driving that, or is it something else?

### **Brian Vaasjo**

Firstly, Ben, in terms of the contracting up the facilities, we would certainly, if there was an opportunity to contract them up to—for some portion, would definitely consider that. Having said that, that wouldn't be the basis upon which we'd be moving forward.

In terms of the capital cost side, I think all I can really say is in bringing together a very well-maintained Genesee units with the latest in technology results and, actually, a very low cost, extremely efficient unit, and it sort of is the sum of the pieces. But we have—we've actually done—not me, for sure, but there's been some very, very creative engineering that's gone into our ability to have such a low capital cost and to have, I would say, at the end of the day, outstanding performing units.

### **Ben Pham**

Okay, and maybe my next question actually is for you, Brian, or for Sandra, on capital recycling. And maybe correct me if I'm wrong, I think for the longest time, you've maybe not been against recycling, but maybe you've—it's been more of a grow acquired result, and so this is actually on the renewable side. So is this a subtle change in how

you view capital allocation with asset sales, that the size of the renewable portfolio getting bigger now you can look at that, or is this just simply maybe the need for capex like Gen 1 and 2, and other opportunities arising in years ahead?

**Brian Vaasjo**

I would just comment, over time, we've always looked at recycling capital through selling assets, and a couple of times in history we've done that, and certainly, as we look forward, the sale of assets is certainly something that will be considered at the time when we're looking at specific needs for capital.

What's been a bit of an impediment over the last couple of years is, as we look forward to the EBITDA expectations or expectations around AFFO, AFFO per share, certainly the sale of an asset results in, generally a decline as we move forward, so that modest dilution is one of the things that has impacted on our decisions of recycling capital, but again, it's always on the table, and certainly, with a broadening and deeper portfolio of renewable assets, it does increase the prospect that at some point we may sell all or part of an interest in a facility.

**Ben Pham**

Okay, and you're still of the mindset that it doesn't make sense to carve out the renewables into a public entity?

**Brian Vaasjo**

I think, still, at this point, it's just too small. There wouldn't be enough market traction, and then when you look at the balance of the organization, likewise, it would be significantly smaller. And I think both would be challenged in the market at this point, and certainly need considerable size before that makes sense.

**Ben Pham**

Okay, great. Thanks, Brian.

**Operator**

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

**John Mould**

Good morning. Maybe just going back to the solar projects in North Carolina, they're costing about \$260 million, but have neutral AFFO accretion in the first five years, clearly, with other benefits like 20-year PPAs and growing your renewables platform. When deciding to proceed with investments of this nature, how are you approaching the balance between driving growth in per-share metrics like AFFO? Returns are all up to your hurdle rates, which I know you do meet on this investment, and other benefits like lengthening contracts, life of your overall portfolio, and growing renewables.

**Sandra Haskins**

Yes, so we certainly take all of those elements into account, but with respect to the economics, we see it as being neutral or slightly positive in that it's still a couple of years out and we have to get through the construction period and finalize our actual financing on that. So expect that we would be 40% tax equity with the full ITCs at 30%, but with respect to the balance of the financing, see this as the kind of project where we could take on a partner which would impact our economics as well, so probably targeting, at this point, that it's most likely to be a few cents accretive on average in the first few years, but neutral at worst.

So I think that we've characterized it conservatively in our communications, but we would balance the ESG impacts, as well as the average contract life and the economics all as part of that decision.

**John Mould**

Okay. Thanks for that, and then on C2CNT, can you just provide an update on how nanotube production is going at Shepard. Any updates on concrete testing, and how the potential start time for construction on the Carbon Conversion Centre at Genesee is evolving?

**Brian Vaasjo**

In terms of what's happening at the Shepard site, so as I indicated in prior quarters, COVID and other things have slowed down progress on the

site in general, not just with us, but X-Prize, etc. So as it sits now, the facility is ramping up, and when I mean ramping up, physically pieces are being put in place for it to get to full anticipated production, and that process is going well.

In terms of the cement side of it, there's been a couple of different nanotube developments as well—specific nanotube developments, as well as means of dispersing the nanotubes in concrete, which have been developed and are undergoing further testing before a batch is put together and sent over to Lehigh for their testing. So there's a sort of an intermediate testing that's taking place right now, so things are going well from that perspective.

As we look forward, again, with everything being kind of pushed off, not sure when we'd necessarily put a shovel in the ground, but our expectation is some time in the fourth quarter of next year we'd start production out of the Genesee Carbon Conversion Centre.

#### **John Mould**

Okay, great, and then just maybe lastly on geothermal. As you know, the government of Alberta is looking to put a geothermal policy in place. I'm just wondering what you think the prospects are for geothermal power in the province, and whether you'd consider dipping your toe in the right opportunity.

#### **Brian Vaasjo**

Geothermal we've looked at a couple of times over the last number of years, and we understand there's a pretty good geothermal regime in southern Saskatchewan, and certainly some good geothermal prospects in British Columbia. Our understanding is in Alberta, maybe not as much, and a lot of it depends on the geology and depth and so on, and I guess, again, when we've looked at it a couple of times, don't see a high probability, but again, that was based on the technology at those times, and again, that's a little bit dated.

Would we look at it? We would certainly consider it if it turned out to be a viable technology and one that could generate, obviously, renewable energy

at significant volumes, that it's worth making the investment in the technology.

You may recall that we were involved in small hydros a number of years ago, and had a number of them, but came to the conclusion that you actually, to take on a technology, you have to have some view that it's going to be a significant volume of that technology, because to operate and manage those facilities and develop them, you actually need to know what you're doing, and we would be more than just a one or two site view of ours. We'd have to believe that it's actually leading to the development of a business.

#### **John Mould**

Okay. I appreciate that colour. Those are my questions. Thank you.

#### **Operator**

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

#### **Maurice Choy**

Thank you and good morning. My first question is about commentary made in the reports with regards to Genesee 1 and 2 having a lower dispatch by the Balancing Pool this year, even though there's been no planned outages. Any thoughts as to why this is so? Do you see that this is the Balancing Pool acting more commercially, their view of spark spreads, or any other reason?

#### **Sandra Haskins**

Yes. I think it's just simply that they have the carbon tax obligation on those units, so as we saw spot prices being relatively low in the province, it got to the point where they were looking at it commercially, and dispatching it down would be our assumption on what they were doing there.

#### **Maurice Choy**

I guess as a follow-up to that, if those carbon tax costs then become yours as of next year, does that mean that the production levels is indicative of what you expect for a full year?

#### **Sandra Haskins**

Yes, so the prices going into next year we see as being relatively higher than what we have in the forwards this year, so expect that those units would be economic at the prices that we're seeing today, even with the carbon tax obligation.

**Maurice Choy**

Makes sense, and second question, I just want to look ahead to, I guess December, when you traditionally put out your guidance for the full year, as well as potentially set out your dividend objectives beyond 2022. Slide 11 you've highlighted a number of uncertainties for next year. Can we, I guess, bother you to discuss where you see clarity improving over the next four to five weeks ahead of early December, or should we expect a different type of guidance next year—oh, sorry, next month?

**Sandra Haskins**

Sorry, guidance with respect to the dividend increases in particular?

**Maurice Choy**

With regards to 2021 earnings, as well as dividend guidance beyond 2022.

**Sandra Haskins**

Yes. I think at this point, our view would be that we would not be extending the dividend guidance beyond what we have given out to '21 and '22 until we start to see that we've got the growth to support incremental increases and just look at some of the other uncertainties going forward.

So with respect to the uncertainties that we speak about for 2021, I think we're starting to see some clarity around power prices this past month, so we'll continue to monitor that throughout the next number of weeks, and as well with carbon taxes, so whether or not there's a rise in carbon tax or if it stays at 30, so we will be looking at our financial impacts of both those scenarios going forward, but I'd say those are sort of the two greatest uncertainties around next year, and of course, at demand in the province as well, so just with respect to the pandemic and where that's going and the implications on demand in the province. So some of those will start to clear, some of them

will be throughout 2021 before we get a better indication as things unfold.

**Maurice Choy**

I guess just a final follow up on that comment that we don't expect—or at least there's no view of an increase beyond 2022 until you see growth to support such an increase. Would you at least be able to reaffirm that dividends won't be cut, and with that, I suppose, would you expect us all to assume it to be that for now?

**Sandra Haskins**

Yes. There's no indication that there's any need to cut dividends, so certainly that is not something that we would be announcing in any regard, so still maintain the guidance that we've given. It's just a matter of seeing growth that would support increases beyond that. In the past, we've given guidance quite far out with respect to dividend increases, and that was just to give the market an indication that we didn't see this as a one and done, and that we did expect continuation of increases.

I think that that message has now been received, and so you'll probably see us signal dividend increases closer to the expected time, and so right now we still are a couple of years out, so we kind of see that timeline of advanced signaling compress in the coming years.

**Maurice Choy**

Great. Thank you very much.

**Operator**

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

**Naji Baydoun**

Yes. Hi. Good morning. Just on the pace of growth in renewable projects; certainly accelerated this year. Do you think this is something you can repeat going into 2021 and beyond. And related to that, what does the current pipeline of renewable projects look like?

**Brian Vaasjo**

As we look forward and recognize, and I think as we discussed before, we have two sources of

renewable projects. One is associated with the existing pipeline we have that comes to fruition, and the other part is working with other developers, typically junior developers, in looking at sites and moving forward. So, when you look at those two, certainly, and you look at what we have underway, it's kind of a mix of the two, and we would expect that to continue going forward, so we have had a very good year, and the year's not over yet, but we do anticipate that we'll have continued success as we move through the next couple of years on developing and building renewable projects.

**Naji Baydoun**

Okay, and I'm sure you've also given some thought to maybe accelerating that—the M&A. Are you currently looking at any other acquisitions of junior developers or late-stage renewable projects to really sort of push on the renewables front, or is the M&A focus still on natural gas for now?

**Brian Vaasjo**

We do look at M&A opportunities on the renewable side. Typically, what we find is that just simply because of the nature of the acquisitions and where there is a significant amount of financial interest, we tend not to be competitive, but we definitely look at M&A opportunities related to renewables, and there have been actually this year, the Buckthorn acquisition is an example of one, so at all times, you can expect that we're looking at both natural gas and renewable acquisition opportunities.

**Naji Baydoun**

Okay. Thanks for that. The rest of my questions were already answered. Thank you.

**Operator**

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

**Randy Mah**

All right. Thank you. We will be hosting our annual Investor Day event on the morning of December 3, and it will be a conference call and webcast. More details will be announced in the coming

weeks. Thanks again for joining us today and for your interest in Capital Power. 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.