

**Capital Power**  
**Q1 2021 Results Conference Call**  
**April 30<sup>th</sup>, 2021**

---

**Corporate Participants**

**Randy Mah**

Director, Investor Relations

**Brian Vaasjo**

President and Chief Executive Officer

**Sandra Haskins**

Senior Vice President, Finance, and Chief  
Financial Officer

**Conference Call Participants**

**David Quezada**

Raymond James

**Robert Hope**

Scotiabank

**Patrick Kenny**

National Bank Financial

**Mark Jarvi**

CIBC Capital Markets

**Ben Pham**

BMO Capital Markets

**John Mould**

TD Securities

**Andrew Kuske**

Credit Suisse

**Maurice Choy**

RBC Capital Markets

**Naji Baydoun**

Industrial Alliance Securities

**Operator**

Welcome to Capital Power's First Quarter 2021  
Results Conference Call.

As a reminder, all participants are in listen mode  
only and the conference is being recorded today,  
April 30, 2021.

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

**Randy Mah**

Good morning and thank you for joining us today  
to review Capital Power's first quarter 2021  
results, which we released earlier this morning.  
Our first quarter report 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 Sandra  
Haskins, Senior Vice President, Finance, and  
CFO. We will start with 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  
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 first  
quarter 2021 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 of the first quarter and  
comment on our 2021 outlook.

We delivered strong first quarter results that exceeded our expectations. This was the first quarter where all generation in the Alberta power market was dispatched by commercial market participants following the expiry of the Balancing Pool PPAs. The strong quarterly results confirm the Alberta power market is truly robust.

Earlier this month, we executed an innovative 15-year renewable energy agreement with Labatt Brewing Company for the Enchant Solar project, that I'll cover off in more detail shortly.

With a strong first quarter and higher Alberta forward prices for 2021, we are forecasting our 2021 financial performance will be modestly above the top end of our annual adjusted EBITDA and AFFO guidance ranges.

We also continue to make solid progress on our approximately \$1.7 billion in growth projects. I'll also provide an update on our various CO2 reduction initiatives.

Turning to slide 5, as mentioned, we've entered into an innovative partnership with Labatt for the Enchant Solar project. It is a 15-year renewable energy agreement for the sale of electricity and RECs. The virtual PPA is for 51% of the electricity from the Enchant Solar project that covers all of the electricity requirement for Labatt's Canadian operations. Approximately one-quarter of the RECs will come directly from Enchant Solar and three-quarters will be packaged with RECs sourced from Eastern Canada to closely align with Labatt's operations footprint.

The 75-megawatt Enchant Solar project is expected to begin commercial operation in the fourth quarter of 2022. When we announced the project in November 2020, our original guidance was \$11 million in adjusted EBITDA and \$12 million in AFFO on average per year for the first five years. This financial guidance continues to be reasonable, with upside from a higher value of RECs based on the federal carbon tax. Overall, the agreement with Labatt will strengthen our

contracted cash flow, extends our average contract life, and support progress towards a low-carbon economy.

I'll now turn the call over to Sandra.

### **Sandra Haskins**

Thanks, Brian. I'll begin my comments by going over the Alberta power market on slide 6.

Extreme cold temperatures in February set a new daily record for demand and contributed to a high average power price of \$95 per megawatt-hour in the quarter compared to a \$67 per megawatt-hour average in the first quarter of 2020. In the first quarter, our trading desk captured an average realized price of \$77 per megawatt-hour that was 24% higher than a year ago. The positive outlook for the Alberta power market is being reflected in higher 2021 forward prices that have steadily increased over the past few months and currently sit at \$79 per megawatt-hour.

For our Alberta commercial portfolio, our baseload generation is 30% hedged in 2022 at an average contract price in the mid-\$50 per megawatt-hour range. For 2023 and '24, we're 24% and 10% hedged, respectively, at an average contract price in the mid-\$50 per megawatt-hour range for both years. This compares to current forward prices of \$63 per megawatt-hour for 2022, \$54 for 2023, and \$51 in 2024.

Moving to slide 7, I'll review our financial results for the quarter. Overall, financial results in the first quarter were strong. This includes revenues and other income of \$554 million, up 4% compared to the first quarter of 2020, largely due to the higher revenues generated from all three units at Genesee.

Adjusted EBITDA of \$303 million was 29% higher than a year ago. Higher adjusted EBITDA for the Alberta commercial facilities benefited from a higher realized power price of \$77 per megawatt-hour compared to \$62 per megawatt-hour in Q1 of 2020. The higher price in the quarter was partially offset by lower generation during periods of milder

temperatures in January and March that resulted in lower demand.

The results for the U.S. contracted facilities reflect a full quarter of contributions from Buckthorn Wind that was acquired on April 1, 2020, and Cardinal Point that began commercial operations on March 16, 2020.

First quarter results include the impacts from the February winter storm in the U.S. that caused some disruptions primarily to our Buckthorn Wind facility in Texas. The net impact for this facility was a positive \$8 million to adjusted EBITDA and AFFO. These are updated numbers on the impacts of the winter storm and replaces the preliminary estimates that we disclosed in late February. Also mentioned in that news release, during the peak days of the storm, our trading desk physically flowed power around North America that contributed another \$6 million to adjusted EBITDA.

Net corporate expenses were \$3 million compared to \$17 million a year ago, largely due to higher recognition of coal compensation revenue in Q1 2021 as a result of repowering of Genesee 1 and 2 which was announced in late 2020.

We generated \$159 million in AFFO that was 35% higher than a year ago. AFFO per share of \$1.49 was up 33% from the first quarter of 2020.

I'll now turn the call back to Brian.

### **Brian Vaasjo**

Thanks, Sandra. Turning to slide 8, I'll review our first quarter performance versus our 2021 annual results.

Average availability was 96% in the first quarter, that included a major planned outage at Decatur. The 93% annual target reflects major planned outages for Shepard in the second quarter and Genesee 2 in the fourth quarter.

Sustaining capex was \$18 million in the first quarter compared to the \$80 million to \$90 million annual target.

We recorded \$303 million in adjusted EBITDA in the first quarter versus the \$975 million to \$1.025 billion target, and we generated \$159 million of AFFO in the first quarter compared to the \$500 million to \$550 million target range. As mentioned, based on our current forecast, we expect adjusted EBITDA and AFFO to be modestly above the top end of their guidance ranges.

Our growth targets are highlighted on slide 9. We continue to make progress on all of our renewable projects. This includes developing and constructing seven renewable projects on budget and on time for commercial operations starting in the fourth quarter of this year to the fourth quarter of 2022.

Construction on the repowering of Genesee 1 and 2 is expected to begin in the third quarter of this year, with in-service dates targeted in late 2023 for Genesee 1 and in 2024 for Genesee 2.

As in previous years, we have a target of \$500 million of committed capital for growth that is aligned with our strategy of growing our renewable assets and/or acquiring mid-life contracted natural gas assets.

Turning to slide 10, I'll provide an update on the various CO2 reduction initiatives that we have underway.

Carbon Corp, the legal entity for C2CNT, recently won the NRG COSIA Carbon X-Factor award. It was one of the two Canadian companies that were honoured for creating excellent products.

The development and marketing of the Genesee Carbon Conversion Centre and carbon nanotubes is well underway, with an expected operational date in mid-2022. The first phase of the GC3 will produce 2,500 carbon nanotubes per year from carbon emissions of Genesee 3.

We are also developing plans to apply carbon capture utilization and storage technology at Genesee 1 and 2. Expected federal and provincial funding will support this initiative, which should

deliver three million tonnes of annual carbon emission reductions. These CCUS initiatives support our goal of contributing to a low-carbon energy future.

In closing, I'll provide an update on the Executive Team as shown on slide 11.

Darcy Trufyn, our Senior VP of Operations, Engineering and Construction will be retiring at the end of June. Darcy has been with Capital Power for 12 years, and has continually delivered outstanding performance in Operations, and has successfully managed the development and construction of all of our growth projects over the past decade. I'd like to publicly thank Darcy for his tremendous contribution to Capital Power.

Steve Owens, who is currently VP of Construction, will be promoted to Senior VP, Construction and Engineering effective June 1. This is an example of our robust internal succession planning.

At the same time, Bryan DeNeve will take on a new role as Senior Vice President of Operations, relinquishing his commercial and business development responsibilities.

Chris Kopecky will add business development and commercial to his responsibilities, and will be the Senior VP and Chief Legal, Development, and Commercial Officer. Prior to joining the Executive Leadership team last year, Chris led our U.S. business development team in Boston.

Kate Chisholm, Sandra Haskins, Jacquie Pylypiuk will continue in their current roles. I'm confident this Executive Team will continue delivering value for our shareholders.

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

### **Randy Mah**

All right. Thanks, Brian. Shawna, we're ready to start the Q&A session.

### **Operator**

Thank you, we will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You 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.

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

### **David Quezada**

Thanks. Morning, everyone.

First question here just on the outlook for the Alberta power market. Obviously, this is the first quarter, as you mentioned, with the Balancing Pool PPAs expired, but we also saw very supportive weather. Just wondering if you could provide any kind of qualitative commentary on how the dispatch might have been different in the quarter as opposed to when the Balancing Pool PPA is in place. Yes, any comments around that would be helpful.

### **Sandra Haskins**

Yes. Thanks, David. As we saw even coming through late last year, the anticipation of the Balancing Pool exiting the market had an impact. We saw a lot of supply response, starting with retirements and mothballing. And now that we're into 2021, we are seeing all assets being managed in a commercial optimization approach, and that has led to the higher prices that we expected that we would see.

In Q1, we did have periods of mild weather, but certainly, in February, when we had extreme cold weather, you did see periods of very high prices, so I think that the market dynamics have unfolded the way we would have expected they would in this post-PPA environment.

### **David Quezada**

Excellent. Thank you. Appreciate that. And then maybe just one on the plans to add carbon capture at Genesee 1 and 2. Appreciate it's

probably early days, but any colour you can provide on what the capital cost might be there and how the province, or the federal and provincial funding support would play in?

**Brian Vaasjo**

We're looking at a project in the order of magnitude of about \$1.6 billion that, again, results in about three million tonnes of carbon being, essentially, buried a year, so it's a very significant volume.

In terms of the federal funding and provincial participation, I think you've probably seen in the press some fairly significant dollars being tossed around in terms of potential support for these kinds of initiatives. The way it's starting to play out a bit—and again, extremely preliminary. As you may know, there's about to be a 90-day consultation period to actually work out some of the mechanics and directions led by the Federal Government. But some of the early indications are that something like the U.S. 45Q may be a way to approach it whereby you get a tax credit for every tonne of carbon that's essentially buried, and that it may well be that it could actually be paid out as well, not only from a tax credit perspective.

There's also some consideration for significant support from the Canadian Infrastructure Bank as well, and then, of course, some of the traditional approaches of making applications both federally and provincially for various kinds of support associated with carbon capture utilization, and then I should also add that there's also some considerable support anticipated for hydrogen technology as well.

**David Quezada**

That's great colour. Thanks, Brian. I'll get back in the queue.

**Operator**

Our next question comes from Rob Hope from Scotiabank. Please go ahead.

**Robert Hope**

Yes. Morning, everyone. Just in terms of the Buckthorn dispute, can you just kind of walk us

through the potential avenues and timing of when that could be resolved? And just to confirm, the \$8 million benefit that you saw in Q1, you received the cash on that and that did flow through the cash flow statement.

**Sandra Haskins**

Thanks. Yes, as far as the timeline, there's no certainty around when that will unfold. We expect that there's a good chance that that'll be settled within this year, but still to be determined.

As far as the cash flow, yes, we are paying in accordance to what we view as being the appropriate number, so that has flown through appropriately through the statements.

**Robert Hope**

All right. Appreciate the colour. And then just a follow-up question for me, so we saw updated disclosure on hedging for '22 and beyond, and you have kind of increased some hedges there. Are you also increasing your hedge profile for the rest of 2021, and maybe could you give some kind of colour on what that shape looks like just so we can kind of triangulate what modestly above the 2021 guidance looks like?

**Sandra Haskins**

Yes. As you may recall, up until last year, we didn't give any indication of our change in hedge position as we came through the year. Last year was a bit of an anomaly given that it was a pandemic year, but what I can say is that we continue to layer on hedges when we see that the price is appropriate to do so. As you know, we came into the year fairly unhedged, and that was by design, and that's played out in our favour, and so we continue to use the same approach when we're looking at stepping into more hedges.

As far as liquidity, there has been an increase in liquidity that we've seen in this year, and even going out a little bit further, so those opportunities are there, but once again, it's all relative to our price view.

**Robert Hope**

Sorry, one more follow-up. Has your price view changed so far this year just seeing how the dynamics in the Alberta power market have changed, or is it still kind of what you presented at kind of Q4 and at the Investor Day?

**Sandra Haskins**

Yes, I think what we had at Investor Day was below what we're seeing here. It does have some shape to it, but generally, there has been a slight lift from what we took as maybe an optimistic, yet somewhat conservative, view at that point in time, given where the forwards were, but things have played out to be more favourable than what we had used at Investor Day.

**Robert Hope**

All right. Thanks for the colour. Appreciate it.

**Operator**

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

**Patrick Kenny**

Thank you. Yes. Good morning, everybody. Just wondering, first, if you could walk us through the accelerated recognition of coal compensation revenue just as it relates to repowering Genesee, what the increase in quarterly revenue might be going forward and does this actually change the actual annual cash amount to be received by the government between now and 2029.

**Sandra Haskins**

Yes. Thanks, Pat. The amount that we receive each year in cash is \$50 million, and that doesn't change, so we'll continue to see those payments, and that's reflected in AFFO at \$50 million per year.

On adjusted EBITDA, the coal comp recognition is amortized over the periods that you're actually burning coal, so because we announced to be off coal in 2023, we do recognize those payments at the same time as we're depreciating the assets that are underlying that compensation, so that's where you get the accelerated recognition that goes through the income statement and impacts Adjusted EBITDA. So, we currently have—on a

quarterly basis, we recognize about \$31 million of off-coal compensation compared to last year which was \$11 million, so it's about a \$20 million increase per quarter.

**Patrick Kenny**

Okay. That's very helpful, but no change, like you said, to the cash inflows on an annual basis. Okay.

**Sandra Haskins**

No, that's correct.

**Patrick Kenny**

Excellent, and then maybe just to circle back on the Buckthorn dispute there, and you haven't taken a provision on the \$18 million exposure, so just maybe you can provide a little bit more colour as to why you feel so confident in your position. I appreciate it's probably sensitive to talk about, but perhaps you can just point to something to give us confidence in: there may not be an unfavourable ruling down the road, or some sort of recognition of that \$18 million.

**Sandra Haskins**

Absolutely. From an accounting perspective, when the outcome is more likely than not that you'll be successful, then you would recognize the favourable outcome, and in our view, the contract uses very plain language in terms of which reference point to be used to establish pricing, and based on that, we feel very confident in our position as being correct.

The counterparty's position of using a different settlement point is generally consistent with the reference point outlined in our contract, except for periods where you see extreme differences in supply/demand like the weather event drove in Texas in February, so typically, there wouldn't be a difference between the reference point and the contract and the counterparty's position, but during the February storm, it was quite a different outcome. But in our view, it's very plain language in the contract, and therefore, we feel very confident in our position.

**Patrick Kenny**

Okay. Thanks for that, Sandra. Then, I might have missed it in the disclosure, but just curious if you utilized any of your carbon offset credits in Q1, or was there a similar deferral as there was back in Q4.

**Sandra Haskins**

The carbon offsets all have an expiry timeline on them, which is a seven-year life, and given that we have a number of credits in inventory that will expire this year, we expect that we'll be using the full allotment of offsets this year, so yes, we did continue to use them in the first quarter.

**Patrick Kenny**

Okay, great, and last one for me, if I could, just if you could provide a little bit of a funding plan update here for the incremental \$500 million that you're looking to commit to this year. Do you expect to be able to finance that fully with debt? Perhaps you're looking at partnerships, or would you lean more towards asset sales or equity options at this point?

**Sandra Haskins**

Yes. It's going to depend on how we commit that capital. If it's something that is in the development realm, then we do have a number of options depending on what that spend profile looks like. As we look at our current funding plan, we have seen a real flattening of our spend profile, so we had anticipated that a lot of the development for the current projects would be incurred this year, and, in fact, that's sort of been pushed out somewhat with a deferral from Mitsubishi on repowering being the key driver there. Also, having higher internally generated cash flow, so at this point, we haven't even tapped into our credit facilities to fund the current development, so it gives us more capacity to look at incremental committed capital.

In the case of an acquisition, it would depend on the size and timing of it, and that's where we might be more likely to look at asset recycling or some other avenue of financing, so it really depends on the nature of the transaction.

**Patrick Kenny**

Right. Okay. That's great, Sandra. Thank you, and it looks like you're off the hook, Brian. Have a great weekend.

**Operator**

Our next question comes from Mark Jarvi from CIBC Capital Markets. Please go ahead.

**Mark Jarvi**

Thanks. Good morning, everyone. I want to touch on the Genesee assets just in terms – a couple of things on the costs and on the revenue. It seems like the realized price is a little higher than the spot price. Just curious if that's sustainable based on how your bidding behaviour's going to be going forward, and then, on the cost side, it looks like fuel and O&M are north of \$50 a megawatt-hour. Is there something abnormal in the quarter? Is it something to do with the hedges? Maybe just help us on the cost side of things as well. Will that step up year-over-year?

**Sandra Haskins**

Sorry, Mark. You're looking at the O&M costs at Genesee year-over-year?

**Mark Jarvi**

Yes, Genesee 1 through 2 and 3. If you just kind of bundle together – I guess just go from revenue, and then the gap to EBITDA and just look at what that spread is and divide by the generation, just that sort of cost per megawatt-hour is kind of gone up dramatically year-over-year. I'm just trying to understand if it's fuel costs, carbon costs, but also maybe some impacts of settlement of hedges or anything like that that goes into those numbers.

**Sandra Haskins**

Yes, I think when you look at the generation at those three facilities, it's down from prior years, so there would be a high-level of fixed costs in there, if you're looking at full O&M and operating costs, so your cost per megawatt hour would go up if you're looking at it on that basis.

**Mark Jarvi**

Then just on the realized pricing, I think margin is above where the spot price averaged in the quarter. Is that something you think you can

continue to achieve based on how you're going to use those assets going forward and it's a little bit more economic withholding than possible?

**Sandra Haskins**

Yes, I think what you are seeing is that there is less generation, or more, as you say, less being bid in, if you will, and so expect that that probably will be the dynamics going forward.

**Mark Jarvi**

Okay, and then when you think about your renewable projects you have in hand, and then more projects, potentially, in Alberta on the renewable side, when you're thinking about the base case and underwriting those projects. What are some of the underlying assumptions between how much return you'd need to get from the merchant price versus how much faith you have in the current TIER and carbon prices going higher, and what do you think your philosophy is? And then maybe contrast what you think you might be seeing from other developers out there in terms of how hard they're going to push on economics around the value of carbon credits going forward.

**Brian Vaasjo**

In terms of the value of carbon credits going forward, I think there's a number of elements that we look at, and that is, of course, when we're out looking for longer-term contracts to support projects that otherwise would be merchant and we're comfortable from that perspective, we're not willing to give up a lot of—after you've adjusted for risk, we're not willing to give up a lot of value in order to secure a contract.

What we rely on is a combination of solid construction, obviously, and development of projects, but in addition to that, and I think as evidenced in Labatt's deal, we do have different levers and different knowledge of markets, and so on, that we can draw on that others who are competing for contracts, may not be able to. And also just our ability in the province to have other, power generation that we can rely on in terms of providing customers with sort of a complete package and an ability to provide power 24 hours a day, regardless of whether the sun's shining or

the wind's blowing, so, there's a lot that we're able to do and pull levers that others may not, so we see that there isn't a need for us to sort of go to any sorts of extremes to ensure that we get contracted facilities.

As indicated, since we embarked on those projects, the carbon price has gone up. The value of those projects, by definition, likewise would go up, and as has, implicitly, power prices in the longer term associated with rising carbon prices, so they sit quite well from an economic position.

Having said that, so ours is the environment for continuing to gain, and we are very active in pursuing additional contracts for long-term commitments associated with our renewable facilities.

**Mark Jarvi**

Okay, and then, some of the comments on carbon capture and government support, obviously, there's an angle of reducing your emissions' intensity, but there's also you pause – you would – if you put capital to work or make a return on that. Do you have a sense at this point yet on terms of how much capital you might be willing to put to work in terms of CCUS versus how much would come from federal or government support. And then how do you think the tradeoff of return on that capital versus the environmental benefits of what that technology does for your company?

**Brian Vaasjo**

When we look at the project, and again, it's early days, but we think of it pretty much as similar to a merchant facility, just simply because you're counting on, to some degree, commodity prices, and so on and so forth, so we start looking at returns in that order of magnitude, as opposed to lowering contracted returns.

As we look at different avenues of potential government support, that obviously reduces risk, and so depending on the nature of the support, then that can bring down our return expectations. And if it was a fully guaranteed commodity prices by the government and significant other bells and whistles, it could get down to almost a contracted



rate of return, so that's sort of the normal economics. And we have started, and I think you've seen in some of our narrative, that we will start, and we're working it out this year, ways in which we can, in our business decisions, incorporate the ESG implications.

Having said that, at this point, and I would say in the timeframe for this decision, it would have, I would say, a modest impact. I mean, certainly, it's a very good thing to reduce the carbon footprint.

The other thing that we would have in mind and difficult to quantify is the overall fact that, as we've indicated earlier, Genesee 1 and 2, we've looked at it, and the repowering based on a 20-year outlook, and the returns that you've seen are based on that 20-year outlook. But we've also indicated that the physical life of those facilities are probably 35 years, and certainly, with carbon capture associated with those facilities, that greatly extends the economic life of those facilities or at least an economic life that we can count on.

There's a lot of very significant moving pieces around this initiative, but we absolutely expect that, for us to move forward with it, it will be adding to the bottom line. It will make sense in a conventional sense but would also certainly make sense for the organization from an ESG perspective.

#### **Mark Jarvi**

Got it, and the last question just on Enchant, you talked about sourcing some credits in Eastern Canada, so those are third-party? And I guess, just what sort of – I suspect they are, maybe I'm wrong about it, but if they are third-party, what's the risk in terms around procurement of RECs in the market in terms of liquidity sourcing going forward?

#### **Brian Vaasjo**

I mean, for obvious reasons, because maybe this is the first that many of you have heard about it or that kind of activity, we're not overly keen on too much disclosure around that, but we don't anticipate that there's much risk around the acquisition of credits to cover that Labatt position.

#### **Mark Jarvi**

Okay. Thank you.

#### **Operator**

Our next question comes from Ben Pham from BMO. Please go ahead.

#### **Ben Pham**

Hi. Thanks. Good morning. I had a question on your Clover Bar facilities. Looking at the production and the strong pricing during the quarter, it didn't look like you ran your Clover Bar facility that much during the quarter despite strong pricing. What's happening there? Is it more coal plants economically withholding that Clover Bar can't clear at the high prices they're bidding? How does Clover Bar fit now in your portfolio? Because you usually run those plants pretty hard when you see pricing conditions like this.

#### **Sandra Haskins**

Yes. During periods where we would utilize Clover Bar more when there's volatility in price and we have a hedge position. What we saw in Q1 is that all of our coal facilities had high availability, and therefore, we ran those facilities and didn't have the opportunity to run CBEC the way that you may have seen it utilized in periods where we were more hedged, so those opportunities really reflect sort of the overall supply in the market, as well as our portfolio position.

#### **Ben Pham**

Okay, so you still see Clover as still strategic overall for you?

#### **Sandra Haskins**

Yes, that's correct.

#### **Ben Pham**

Okay. Maybe on my second question on carbon capture, I mean, we've been through a couple cycles of this before. You've worked on some of these various technologies. Maybe you can tell us what's different this time versus before?

#### **Brian Vaasjo**

One of the major elements is that we are, and the country is, looking at a profile of escalating and material carbon prices, which is not what we had seen before, so that obviously has a significant implication. Also, you have a more concerted effort by both the Federal Government and the Provincial Government to meaningfully bring down carbon emissions. For example, what we're talking about with Genesee 2 and 3 – or pardon me, 1 and 2 in terms of carbon capture associated with it in the dollars, is actually about a-third of the current federal expectation of carbon reduction in the power sector from what they would have expected to otherwise happen, so there's a strong intent to not demonstrate technology and see where it goes and evolve it in time.

There's a drive by both the Federal and the Provincial Government to reduce emissions by 2030. This isn't a large experiment. There is a real drive to put real financial support behind making these projects move forward. For example, our timeframe associated with – an expedited process of moving this forward is we could be putting carbon in the ground in 2026. There is a little bit of an urgency here from both the Provincial and the Federal Government to actually move forward with these technologies.

The other thing that's very different is that there's been a lot of work done, and we've done a lot. And as you pointed out, historically, we've put about – with some government funding associated with it, about \$50 million into carbon capture and storage potential development, so we're quite knowledgeable in the area.

Our cost of preliminary studies is a couple of million dollars, and feed studies is, before internal cost, somewhere around \$5 million, as opposed to what, historically, people think of as a \$30 million or \$40 million touch for being able to have these projects developed. So I would say this isn't a case of let's develop the technology and see where it goes and what the potential is, which is, I would say, the prior direction of the Federal and Provincial Government going back a few years to we actually have to reduce carbon and we have to put money behind it in order to do it.

### **Ben Pham**

All right, that's very useful. Thank you, and I'm not sure Darcy is on the call. Best wishes in retirement, and congratulations on everybody else in their appointments. Thank you.

### **Brian Vaasjo**

Thank you. I'll pass that on to Darcy.

### **Operator**

Our next question comes from John Mould from TD Securities. Please go ahead.

### **John Mould**

Thanks. Good morning, everyone. I'd like to just start with gas-fired or potential gas-fired acquisitions. The Trudeau Government has increased its 2030 emissions reduction targets. The Biden Administration has articulated some pretty ambitious targets, probably with a tough legislative path. But how did these increased decarbonization ambitions inform your thinking on potentially acquiring mid-life, strategically located, gas-fired assets?

### **Brian Vaasjo**

Obviously, we have to see how some of this plays out. Now, as you said, the Biden Administration and what they speak of in terms of targets, particularly as it affects the power industry, are fairly aggressive. And the Republicans have a very, very different view, so what comes out at the end of the day we expect to be some sort of compromise in the middle.

I mean, what we do see as very positive is the fact that both parties in the United States are very keen on technology and on technologies like carbon capture and storage. So what we see, particularly with large facilities like the ones we have like Decatur, is technologies are evolving and will evolve in time where there's a high possibility or probability that one of these technologies can be associated with our facilities and reduce carbon from that perspective. When we look at new opportunities, certainly, we'll be thinking about the potential for carbon capture and storage and carbon utilization.

I think the other thing to point out is a little bit of the rationale as to why we look at mid-life natural gas assets, is if you take a natural gas plant that, say a 30-year life or a 40-year life somewhere in that range. These assets, when we buy them, end up with sort of a 10- to 20-year timeframe or future, and you tack that on to today, we don't have, other than potentially Genesee 1 and 2, we don't have any assets that actually – natural gas assets that, without repowering or other significant investments, would move it to a 2050 timeframe, so again, that's part of the general, lower-risk approach associated with pursuing mid-life natural gas assets.

We do continue to monitor technology, and I think, as we've said, we're looking to apply technology to Genesee 1 and 2 and learn from it, and also watch what's evolving with other technologies, and then potentially apply carbon reduction technologies to the Goreways and to the Decaturs and to the Arlingtons as we move forward.

#### **John Mould**

Okay, great. Thanks for that context. And then just maybe moving to your Alberta renewables pipeline, you've had success with Strathmore and your latest solar projects in terms of announcing those as merchant and then contracting those corporate buyers. Just wondering if you can give us a sense of what your potential earlier stage pipeline in Alberta looks like right now and what the timeline could look like for making an investment decision on some of those potential projects.

#### **Brian Vaasjo**

In Alberta, we're continuously looking at renewable projects, and our success in moving projects forward and contracting and so on has sort of increased the lineup of people wanting to talk to us in terms of junior developers with potential opportunity, so there's a lot of opportunities out there for Capital Power. Having said that, they're all not necessarily good projects, so that continues.

We also are looking at some of the projects and relationships that we control, and one of the things that we're monitoring and watching is the degree to which we're seeing projects and contract possibilities evolve.

One of the things, as you may recall, that pushed us to move forward on the Enchant project was the fact that Strathmore was already filled up, and so we're monitoring that as well, and we expect that outlook to be very positive and to be very fruitful for Capital Power in the relatively near term. To make a long story short, wouldn't be surprised at all if we move forward on another renewable project in Alberta this year.

#### **John Mould**

Okay, great. I'll leave it there. Thanks for taking my questions.

#### **Operator**

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

#### **Andrew Kuske**

Thanks. Good morning. Appreciate some of the enhanced disclosure on your embedded renewables business, and I guess the question really drives to – some others have structurally separated this business, but historically, you've always taken the view of having this really under one roof. Has anything really changed in your opinions in the past to where we are with the disclosures now?

#### **Brian Vaasjo**

Andrew, I think, as you know, and as we've discussed over the years, we continually look at that. Whether it was the quick spin-offs that took place or high yield organizations, and so on and so forth through time. It's something that's always there and always something that we should be actively considering.

As we go through it and have fresh eyes on it, how the world is evolving, what ends up happening is at the end of the day, if you did something like spun-off our renewables business, you end up with two relatively small businesses.

You certainly get the benefit on the renewable side, but you also would be experiencing, on the thermal side, a little bit of lower multiples, obviously, and given their sizes of the two businesses at this point, don't really see that as being practical.

If you look at it in terms of a relationship of dropping down assets, and so on and so forth, one of the things that this size drives is that you continually have to look at consolidation from an overall risk perspective and from a rating agency perspective, which drives again some limitation on how far you could push a renewable entity in terms of its investment potential and the degree to which it could actually throw off cash for Capital Power. So, at this point, the sun and the moon and the stars aren't lined up for that kind of a play, but again, we continually look at it, and size does matter, for sure.

#### **Andrew Kuske**

Great. That's helpful context on things. And maybe just focusing, perhaps, on the sun, when you think about Southport and Roxboro effectively going offline, is there anything you can do with the physical footprint there? In particular, you've got grid connectivity, and so is there solar that you could put on site? I mean, I noticed physical limitations with the sites, but is there anything you can do to really optimize the footprints you have, given some of the renewables initiatives in the state?

#### **Brian Vaasjo**

When you look at the physical footprint of Roxboro, it's really too small to do anything. It's a regular sort of industrial size. There's no real excess land there, so from a renewable perspective, it isn't a good site, although, as you say, from a connectivity to the grid and so on, it's got some positive attributes.

When you look at Southport, it's actually property leased from Duke, and even though it's a bigger footprint, it still isn't big enough to establish a significant renewable project. Again, it's just too small, and complicated by the fact that it's actually leased from Duke.

#### **Andrew Kuske**

Okay. Very helpful. Thank you.

#### **Operator**

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

#### **Maurice Choy**

Thank you.

I just wanted to pick up on your question about size, as well as tying back again to an earlier comment about the sale of potential assets. Obviously, it sounds like there's a lot less urgency now in terms of potentially selling certain renewable assets, which was the comment made back in the Investor Day, and Brian, you alluded to how, if you did sell the renewables, the size of the company might be a little too small. Curious to understand what is the target size that you're thinking of in your mind. And along with that, how do you approach, I guess, the thesis between capital recycling versus gathering assets for size?

#### **Brian Vaasjo**

Well, I think when one just sits back and says, so how do you actually realize the value associated with the renewable assets, I think, as Sandra's commented a number of times, those would be the assets that we recycle. Those are the ones where we think that there may be a little bit more value than the value reflected in the market with us holding it, so that realization, we think, is a way of, again, recognizing the value of the renewable assets from a shareholder perspective, so those would be the primary candidates. As we look at needs to raise capital, it is definitely in the wheelhouse of something that we would be actively looking at every time we consider raising capital, again, where they are in the market today, the values in which renewable assets are achieving.

It's, again, definitely in our wheelhouse to be looking at recycling those assets as an avenue of ongoing realization of value for shareholders. I think we've commented in the past that, as we move forward and we see increasing renewable

opportunities, it's entirely possible that part of our approach to the renewable business is to develop and build beyond, I'll say, our ability to currently finance and get into a cycle of consistently and systematically recycling renewable assets, realizing that value to sort of fuel further growth and further size in the organization. We recognize that potentially recycling renewable assets is a significantly positive value proposition.

### **Maurice Choy**

I guess recognizing all those comments, going back again to the size, it sounds like you're not quite there yet. Is there one where you want to double or triple your size before you go on in a more active capital recycling approach, or are we close to the mark now?

### **Brian Vaasjo**

No, actually, if you look at significantly recycling renewable assets is something that right now, as you know, with \$1.7 billion of spend in front of us, although, as Sandra said, it's smoothed out a bit and so on. If we saw significantly more renewable opportunities developing in Canada and in United States in the near to medium term, you might see a fairly active renewable recycling program, just because we're able to capture that value for shareholders, and restocking it and growing it. There are some degree of limitations to how quickly we could grow to the extent that we can develop and build beyond that. An excellent model is to be recycling that capital and actually accelerating our growth, despite the fact visibly it looks like we're selling assets that we otherwise could have held on to. It actually could significantly fuel our growth.

### **Maurice Choy**

That makes sense. And just to finish up on a slightly different topic, and this is about your carbon nanotubes, it sounds like there is obviously appropriate support for CCUS projects like yours here in Canada, and if I tied together many of the comments you made today about existing gas assets and potential future acquisitions of gas assets, a lot does depend on your success relating to C2CNT. So, could you share with us if there's any other obstacles, or any

obstacles left with regard to C2CNT, be that technology or your commerciality of the products?

### **Brian Vaasjo**

C2CNT is certainly and I think there's significant opportunities around C2CNT, but I think we've said all along, that is one of the avenues of reducing the carbon exposure; everything from the simple trading, which is how we prefer not to reduce our carbon exposure, because that doesn't actually reduce your risk to where we're physically reducing carbon coming out of the stack such as CCUS or C2CNT, or ultimately, reducing carbon on some other avenue, but not necessarily associated right at our facilities. So when we look at that profile, and where C2CNT fits, in time, we'd expect to have invested or participated in a number of carbon reduction applications to be able to reduce our carbon profile.

With C2CNT, as we look at it, continues to have a robust outlook, although I think, as we've cautioned, I'll call it the significant escalation in utilization and acceptance will not be immediate, just simply because there's usually, on very large applications, an interface technology challenge to overcome such as cement, as we've talked about in the past, and that, by the way, is moving along, and the tests are promising from that perspective, and so again, we see that moving forward. Again, C2CNT, continue to see it as very promising and robust, and will add a significant amount of shareholder value in time and mitigate some of our carbon risks, but it's not the only answer. Even in that space, you may find in time, that we're looking at other technologies, and so again, there's a lot of significant potential associated with it, but in the general space, again, we're looking at a whole range of different kinds of technology to mitigate carbon.

### **Maurice Choy**

Great. Thank you very much.

### **Operator**

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

### **Naji Baydoun**

Hi, good morning. Just wanted to go back to the topic of developing versus selling renewables for a second. So besides spinning off the renewables portfolio or select asset sales, I'd like to get your thoughts on what are some of the other avenues you're considering to potentially recognize the full value of those assets versus what is being attributed to them in the market today.

### **Brian Vaasjo**

One of the things and one of the approaches, as opposed to fully outright selling the assets, is to work with, say, a financial player and jointly developing assets that are sort of well beyond our ability to finance, and in addition to getting our proportionate share of the economics, also gaining fees associated with operating the facilities, and so on and so there's other approaches to elevate the value of the assets.

In the longer term, when you're in a position where you've got more on the development and construction side than you can reasonably finance, then it opens up actually a number of different opportunities and ways to increase the value around those assets beyond just a simple sale or partnerships: ongoing partnerships on the development side, or just one-off partnerships associated with either one or a group of those assets, so there's a number of different ways in which value can be realized associated with them.

### **Naji Baydoun**

Appreciate those comments. Are there any updates that you can provide us on the Island Generation re-contracting? Just wondering when you expect to be able to finalize that initiative.

### **Brian Vaasjo**

There's really no change in BC Hydro's ability to move forward on the execution of those kinds of contracts, and it's not just Island Generation. There's a number of other facilities in British Columbia that are just being held up for I'll call it technical reasons, so, again, not sure when that will end, but continually receive assurance from BC Hydro that they absolutely need the asset, and the question isn't if, it's just when.

### **Naji Baydoun**

Okay, got it, and I just have one last question on really sort of corporate partnerships or relationships and what kind of opportunities that opens up for you. I'm just wondering if you can talk about how the agreement with Labatt has maybe informed your approach to corporate contracting, and if you can talk about any opportunities that you see with other sort of corporate customers in Canada or the U.S. to access renewable energy.

### **Brian Vaasjo**

You put Labatt together with the other one that we announced earlier this year but still haven't indicated who the off-taker is. Those are very good contracts, and what we have found that, unlike the early renewable contracts that were available in the United States, and although we aren't a direct counterparty in some of those, but some of our wind facilities in the United States are actually backed through a third-party by sort of the Amazons or Googles, etc., so we get some insight from that perspective as well, and it's gone from where it's kind of a simple contract of renewables entering into an energy portfolio of large organizations to where they've become more and more sophisticated, and they're looking for more and more elements around the contracts, drilling down more into the energy side, and I'd just say that whole drive is becoming more mature from the customer perspective.

It's sort of, I mean, if you think of it simply, it's gone from a procurement part of the organization like supply chain to more committed and focused resources on energy procurement who have greater expertise, so that market is maturing and they're asking for more, and they're looking for more creativity in the solutions. And so, for example, the discussion with Labatt's was over a number of months, a large number of months to get the agreement that works best for them and best for us.

Think that maturity in the market, although it takes more time, as I said earlier, we've got more levers, we've got more things that we can bring to

the table than many of the other people we're competing with for contracts, so we think that maturity is actually helpful to us. We expect that that kind of maturity on the buyer side will continue to evolve, and again, that evolution is very positive for us, so, for example, in the Labatt's deal, it's targeted to cover their demand for the overall Canadian side of their business, and, in fact, the renewables getting broadly sourced to kind of emulate where the demand is. If you looked at a contract, say, two years ago or three years ago, you wouldn't have nearly that degree of sophistication, so, again, it's a continually changing market, but we think that evolution is to our advantage.

**Naji Baydoun**

Appreciate all that great colour. Thank you.

**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**

All right. Thanks, Shawna. If there are no more questions, we will conclude our conference call. 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 now disconnect your lines. Thank you for participating and have a great day.