Capital Power
Third Quarter 2023 Results
Conference Call
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Corporate Participants

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Conference Call Participants

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Maurice Choy
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Mark Jarvi
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John Mould
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Benjamin Pham
BMO Capital Markets

Patrick Kenny
National Bank Financial

Operator
Thank you for standing by, this is the conference Operator. Welcome to Capital Power's Third Quarter 2023 Results Conference Call. As a reminder all participants are on a listen only mode and the conference call is being recorded today, November 1, 2023.

I will now turn the call over to Ms. Kat Perron, Manager of Media Relations and Communications. Please go ahead.

Katherine Perron
Good morning and thank you for joining us today to review Capital Power's third quarter 2023 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.

Presenting this morning are Avik Dey, 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'd 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 3, or our regulatory filings available on SEDAR.

In today's discussion, we will be referring to various non-GAAP financial measures and ratios, also 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 2023 MD&A.

I would like to acknowledge that Capital Power's head office in Edmonton, is located within the traditional and contemporary home of many Indigenous peoples of the Treaty 6 Region and the Metis Nation of Alberta Region 4. We acknowledge the diverse Indigenous communities that are in these areas and whose presence continues to enrich the community and our lives, as we learn more about the Indigenous history of the lands on which we live and work.

Before I turn it over to Avik, Slide 5 provides an overview of what we'll be covering on today's call. We'll start with updates on our net zero strategy, introduce our expanded executive team discuss progress on our strategic growth, provide financial results, including 2023 full year guidance. And finally, we'll wrap up with details regarding our upcoming Investor Day.

With that, I will turn it over to Avik for his remarks starting on Slide 6.

Avik Dey
Thanks, Kat, and good morning. During our last call, I talked about our strategic focus on delivering reliable, affordable and decarbonized power, which will be built on three strategic pillars: grid-critical baseload generation, renewable generation and the pursuit of decarbonization solutions. I'll provide a brief update on our progress in these areas before commenting on the quarterly results. Our $1.35 billion Genesee Repowering project represents a critical step towards dispatchable baseload generation by providing an additional 512 megawatts of net capacity for Alberta. We continue to deliver on our mid-life natural gas strategy as demonstrated by our agreement to acquire the Frederickson 1 Generating Station, which will deliver 265 megawatts of reliable baseload generation to the Puget Sound region.

On the renewables front, construction is underway for the Halkirk 2 Wind project and continue to see great progress on the Maple Leaf Solar and Ontario BESS projects.

Finally, our decarbonization efforts continue through the Genesee Repowering project, which will reduce annual CO_2 emissions from the facility by 3.4 million tons from 2019 levels.

We are also actively engaged in ongoing commercial discussions to advance our near shovel-ready Genesee CCS project. These projects and initiatives demonstrate that we are taking a balanced, thoughtful approach to energy transition and delivering on our net zero strategy. Addressing climate change is an urgent generational challenge and we're proud to take a leading role in decarbonizing our power system to deliver long-term value for our business, communities and planet.

Now I'll speak about key highlights from this quarter. I'd like to introduce you to our expanded executive team, a combination of internal promotions and an external new member.

With decades of experience in the energy industry, they will lead our company to net zero by 2045.

In Corporate Services, May Wong has been promoted to Senior Vice President, Strategy, Planning and Sustainability and will lead our Corporate Strategy Sustainability efforts and long-term planning. May previously held the role of Vice President of Strategy, Forecasting and Sustainability, and has been with the company for 20 years.

Pauline McLean joins us from the Alberta Electric System Operator where she spent 14 years in senior legal and commercial roles. Pauline leads our legal, regulatory, corporate compliance and external relations functions of Capital Power, and provides support, risk management and strategic insights to senior management and the Board of Directors.

In Asset Management, Steve Wollin has been promoted to Senior Vice President, Operations and will oversee the safe operations of our fleet, which includes the functions of operations, supply chain and health, safety, security and environment. He is responsible for reliability and plant efficiency programs that provide industry-leading plant availability and emissions reductions. Steve previously held the positions of Vice President, Thermal Operations East and Renewables, and Vice President Engineering and also brings knowledge and experience in pre and post-combustion carbon capture technologies. Steve has been with the company for 22 years.

Jason Comandante has also been promoted to become our Senior Vice President, Head of Canada. Jason oversees the physical and financial optimization of our Canadian fleet, including the execution of Canadian development and acquisition opportunities and the assessment and investment in decarbonization technologies in Canada. Jason has held senior leadership roles in commodity trading, corporate strategy, regulatory and commercial management and has been with the company for 22 years.

And finally, Bryan DeNeve moves into a new role as Senior Vice President, Chief Commercial Officer, where he now oversees commercial business initiatives across North America, including the physical and financial optimization decarbonization of Capital Power's fleet. Bryan has previously served as Senior Vice President, Operations, as well as Senior Vice President, Business Development and Commercial Services and Senior Vice President, Finance and CFO.

Sandra Haskins, Jacquie Pylypiuk, and Steve Owens continue to serve in their current roles. With their industry experience and expertise, this dynamic group is the propelling force behind the development of critical solutions that will meet the growing long-term demand for Power across North America.

I'm happy to extend a warm welcome to Pauline, May, Jason and Steve to our leadership team.

We have a very strong pipeline of growth, whether that'd be through acquisition or development, that we have consistently converted to fleet capacity driving long-term shareholder value. With projects under development and announced this year, we will be adding over 1.2 gigawatt of capacity to our fleet going out to 2026, bringing the total capacity added since 2022 to 2.3 gigawatt in 5 different power markets across North America.

Our pipeline has a strong inventory of projects with another 4.2 gigawatt of near-term growth opportunities. And our strategic alignment with First Solar means that we have secured 1 gigawatt of responsibly produced ultra-low-carbon solar modules that will ensure our U.S. projects meet domestic content rules under the Inflation Reduction Act.

Now, I would like to talk about our recent acquisition agreement as we continue to strategically grow our fleet with grid-critical dispatchable baseload natural gas assets. Fredrickson 1 Generating Station represents an excellent strategic fit with our fleet by providing an additional 265 megawatts of flexible, fully contracted baseload generation.

The facility is in the Pacific Northwest, which further diversifies our geographic footprint and is well positioned for re-contracting opportunities with legacy coal retirement on the horizon.

In addition, the facility sits on approximately 7 acres of land and is adjacent to additional lands owned by Capital Power. This represents a prime location for future developments, such as a battery installation or a hybrid opportunity. The facility is expected to deliver average contracted EBITDA of $15 million U.S. per year during the 5-year period of 2024 to 2029 with accretive near-term cash flows and will be financed using cash on hand and credit facilities. We anticipate the transaction to close in late 2023 with no significant impact on this year -- this fiscal year's results.

Highlighted by the map on Slide 10, the addition of Frederickson 1 fits very well with the key criteria we look for in the energy markets that we invest in and strategically diversifies our presence across North America. Our expertise to assess, determine and capitalize on the right market opportunities, supported by our ability to optimize, operate and deliver leading reliability results from our assets, is driving value for our business.

Geographic diversification of our fleet in markets that hit our sweet spot will provide long-term opportunities for our balanced approach to energy transition.

I'd now like to pass it to Sandra to review our financial highlights for the quarter.

Sandra Haskins
Thanks, Avik. Strong fleetwide performance with an average availability of 96% led to reported adjusted EBITDA of $410 million for the third quarter, an increase of 7% year-over-year. The benefits of a diversified fleet were highlighted in the quarter as the growth was primarily driven by strong contributions from our U.S. and Ontario contracted segments, including a full quarter's results from MCV acquired in September 2022. This offset the impact of lower prices captured by our Alberta commercial segment compared to 2022.

AFFO of $960 million in the quarter is down 10% from a year ago. Strong adjusted EBITDA results and lower shutdown capital spend in the quarter were offset by higher current income taxes, higher finance expense due to the green hybrid subordinated notes issued in the third quarter of 2022, and lower realized gains on settlement of interest rate derivatives compared to 2022.

The financial performance for the 9 months of the year reflects strong Alberta Commercial segment results driven by higher realized power prices on our portfolio and 9 months of contribution from MCV leading to adjusted EBITDA of $1.1 billion, which was up 8% over the same period in 2022.

AFFO of $657 million was down 7% year-over-year due to the impact of higher current income taxes and finance expenses offset by lower shutdown capital spend and preferred dividends paid. I'll touch on our Alberta power and natural gas hedge positions, which are shown as of September 30, 2023. Since the end of the second quarter, our power hedge volumes for 2024 to 2026 have once again increased.

For 2024, it has gone up from 8,500 to 9,500 gigawatt hours and from 7,000 to 8,500 gigawatt hours for 2025. For

2026, the hedge volumes have gone up from 5,500 to 7,500 gigawatt hours.

The weighted average hedge prices are mid-$70 per megawatt hour across all 3 years. The hedge positions include long-duration origination contracts as another mechanism to manage price risk.

The graph on the left shows the relative magnitude of hedges that are long duration. Our natural gas hedge volumes of 70,000 TJs for 2024 remains unchanged from 2022, while 2025 has slightly decreased from 60,000 TJs to 55,000 TJs as a result of some portfolio rebalancing activities to better tailor our hedges to our portfolio needs. In 2026, we have increased our natural gas hedging volumes from 45,000 to 50,000 TJs. Natural gas volumes have been hedged at favorable prices compared to current forwards.

I'll conclude our remarks by reviewing our 9-months performance relative to our 2023 target.

We continue to have high plant reliability and availability. Our average facility availability of 95% for the first 9 months of the year and we expect to finish the year at or slightly above our availability target of 94%.

Sustaining CapEx was $99 million in the first 9 months and is on track to meet our 2023 target of $135 million to $145 million. With respect to the financial performance targets of $1.455 billion to $1.515 billion in adjusted EBITDA and $805 million to $865 million in AFFO based on the Alberta power forward prices heading into the quarter, our 2023 full year financial results are trending to be below the midpoint of our guidance ranges for AFFO and adjusted EBITDA.

Lastly, I know many of you have been asking about our plans for our Investor Day. And I'm excited to announce that we will be changing things up a bit this year by hosting the event here in Edmonton on May 7 and 8, 2024. The experience will include a tour of the Genesee Generating Station and Repower project site.

We will be releasing further details on the event, along with 2024 guidance information later this year.

With that, I'll now turn it back over to Kat.

Kat Perron
Thanks, Sandra. Josh, we are now ready to take questions.

Operator
Thank you. We will now begin the Q&A, question-and-answer, section. To join the question queue you may press *11 on your phone to raise your hand. We will pause for a moment as callers join the queue. Our first question comes from David Quezada with Raymond James. You may proceed.

David Quezada
Thanks, good morning everyone. Just maybe my first question on the Frederickson acquisition. Now that you have a facility in the Pacific Northwest, do you see that as another hub and you see sort of growth opportunities surrounding that? And maybe on a related note, what kind of time line would you be looking at for some of the other opportunities at that site that you mentioned?

Avik Dey
Thanks, David, for the question. So we think the entire Western U.S., we've got our existing position in Desert Southwest at Arlington. We've been active in that region from Desert Southwest all the way up through the Pacific Northwest historically at the company, whether it's through operating

assets through the previous LP or just being an active participant on the trading side. So we continue to see additional opportunities in the broader region and believe it will be a core focus area for us.

In terms of other opportunities in and around the existing position we have active dialogue around other opportunities utilizing our existing acreage but they're all very early days, nothing that is, I would call, investable, in the short term, but they are active conversations. And more broadly, we see opportunities as well, whether it's acquisition or partnering.

David Quezada
Okay, excellent thanks for that. And then maybe just one, switching gears a bit to the CCS project. Any update on the carbon insurance mechanism there? I'm just curious how you compare and contrast the CCS investment in Canada as compared to the U.S. I know you've talked about it at MCV as well. Is there some potential that you, if you couldn't get comfortable in the carbon insurance mechanism in Alberta, could you instead change the focus to MCV and have some kind of a CCS project there?

Avik Dey
Well, as we've previously announced, we are commencing studies in Michigan around the viability of CCS. So, to answer the first part of your question, in terms of update, we have not advanced the commercial conversations to date. We continue to have active conversations. As we guided to last quarter, we wouldn't provide any additional updates until we had a material one. We continue to be optimistic about getting to the finish line around the commercial agreement, whether it's the CCFD or some other commercial alternative but we have not advanced it to this point where we could make an announcement. But I think from a viability of CCS, there will be places in the U.S. and in Canada, particularly Alberta, where we think it's viable.

And as we've mentioned before, we've got a shovel-ready project. So, the capture part of it, we feel quite comfortable. Now it's just a question of reconciling the commercial aspects of it. And as you mentioned, on the U.S.side, with the IRA in the 45Q and the incentives around the IRA, there's a clear formula there in terms of the capital support for it around 85 dollars U.S. a ton.

And in Canada, we continue to work with the federal government on meeting something that works for all parties. But like I said, continue to be optimistic, we are in regular dialogue. We have lots of conversations and everyone is working towards a similar outcome, but no material update from last quarter.

David Quezada
Appreciate the colour, thanks. I'll get back in the queue.

Operator
Thank you. One moment for questions. Our next question comes from Robert Hope with Scotiabank. You may proceed.

Robert Hope
Good morning, everyone. Once again, the Alberta Throne speech spoke about affordability of electricity rates. It added a little bit of commentary that it would be looking proactively to engage with industry regarding an outcome there. The press -- or the press conference thereafter almost opened the door for a capacity market in the region. So, are you engaged with the government already? What type of changes do you think you could see in the Alberta market? And would you be open to a capacity market?

Avik Dey
We continue to be focused on the merits and effectiveness of the energy-only market. We've been very engaged in the conversations at a provincial level and with our counterparties and peers around what best serves the market and continue to believe the best solution for high prices is high prices, as evidenced by the new capacity coming on stream in 2024. So we do think there are some critical short-term issues that do need to be addressed around reliability, and we expect to see some tweaks to the existing system to facilitate that. But the cornerstone of the energy-only market we expect to be maintained.

Whether there's other ancillary service products that help support that reliability, I think we and other competitors, as well as the regulatory bodies, are all having those conversations. But I would say everything has been very, it's been an open dialogue and it's been a constructive dialogue to this point. But we continue to advocate for and expect to see the foundational elements of the energy-only market maintained.

Robert Hope
I appreciate that colour. And then, maybe for Sandra. You touched on the kind of the moving parts in 2023 guidance in your prepared remarks. I was hoping you could dive a little deeper. When we take a look at Q2, pricing was strong, AECO still remains weak. Can you maybe talk to in a little bit more detail what the key drivers are that could push results to the bottom end of the 2023 range?

Sandra Haskins
Yes. So as you recall, we came out at Q2 with the expectation that based on forwards at that point in time that we would still be able to land the year at above the midpoint and so forwards for the year were forecast to be around $175. We're now looking at a forecast that's in the $145 to $150. So you would have seen that in Q3, where we had all of the events that drove Q2 higher, whether it be the forest fires here in Alberta, as well as warm temperature and supply constraints that push forward sort of resolved itself. And as we came through Q3 and saw very mild weather, strong supply and that brought the forwards down at, call it, $25 to $30 a megawatt hour.

So based on the absence of that volatility, which creates the incremental upside for our assets, you would see that sort of pullback in our forecast. So, I would caveat that with the fact that we still expect that prices can move around a fair bit, given we are just entering the winter season and starting to get some colder weather here.

So it is, once again, weather-dependent in terms of where those forwards land. But when you use the curve that is out there today, that's what's driving it down, so nothing on performance of the assets with respect to the entire fleet. So it's continuing that to be strong. But just the range of potential outcomes given where we are in the market pricing today just creates that amount of swing that could easily reverse should we see further changes in that forwards price group.

Robert Hope
Thank you.

Operator
Thank you. One moment for questions. Our next question comes from Maurice Choy with RBC Capital Markets. You may proceed.

Maurice Choy
Thank you and good morning. If I could start with the proposed federal CER. I know you've remarked in your reports that all your assets will qualify as

existing assets under the draft proposals. What do you think the 30 tons per kilowatt-hours threshold may mean for the longevity of your Genesee Repower project and also the technical specifications of your proposed CCS project.

Avik Dey
So, I think stepping back on the CER, as you may have noted, we've been fairly active publicly and privately in terms of advocacy in and around the CER. And, we continue to believe that the framework for the CER is workable with specific tweaks in particular in Alberta, given our existing reliance on thermal generation for baseload dispatchable. So without commenting on the specifics of the legislation as they are currently stated, as you know, comments are due tomorrow, and we're going into the next phase.

We've had very constructive conversations with both sides of the conversation whether it's with the federal ministries involved or provincial, the provincial ministries on this front. And we expect to -- those conversations have been constructive around whether it's the end of prescribed life, whether it's the use of peaker capacity, whether it's the conversation around use of offsets. So, we expect some of those changes to get reflected as the conversations have indicated that there are different, one solution doesn't fit all.

So for places like Alberta, in particular, and Ontario in their use of peakers, we expect some of those accommodations to be met.

Maurice Choy
And just to follow up on that. Any thoughts on the CCS side of things besides the peakers and the 20-year?

Avik Dey
Well, the CCS, I think it all -- it's funny, You can't answer one question without the other. So, the CER framework establishes the baseload. And on CCS in particular, it's just a question of what level of greenhouse gas intensity can you actually achieve through a thermal asset. So we expect that that percentage compliance needs to be more akin to where the technology is today.

So that percentage rate, we think should come down. I can't comment on the exact percentage right now because it also depends on what the use of offsets are, where we land on end of prescribed life. There's not any one provision that in itself is a silver bullet. You've got to take all of those provisions in context and then determine where to come out.

So CCS is so intrinsically tied into the CER the other provisions of CER, we wouldn't advocate for one specific number. Having said that, at Genesee, CCS, we still see the viability of that project in the context of CER legislation moving through, but it cannot without some of the tweaks that we've already publicly discussed.

Maurice Choy
So I guess if you put aside the carbon insurance mechanism and just think about the policy background for the CCS, and I think you mentioned that the final CER might come in mid-2024, should we then assume that the CCS project is a least pushed to the end of 2024 in terms of decision?

Avik Dey
I can't make that assertion. We came out with our guidance in the summer, which was, we're near shovel-ready on the technical aspect. And we need to drive to a finish line on the commercial side. We have not had anyone on the federal side step back because of CER on the engagement on the commercial

side. We continue to have conversations.

My colleagues and I were just in Ottawa a few weeks ago progressing, these conversations. We have more discussions upcoming, not one of those discussions has been tied directly to CER. It's more been tied to how do we figure out TCFD or the alternative. And how does it -- how do we actually put a shovel in the ground and get the project up and running.

Maurice Choy
If I could just finish off with a question to you on strategy. And obviously, it seems like you're signaling that the mid-life natural gas strategy will continue with the Frederickson acquisition, and today we see a change in your executive team. You're coming up to 6 months with your CEO-ship here. And I'm wondering where you see the company strategy today, how the executive team will help accelerate any part of that strategy, and if there are any areas you want to focus a little bit more time in the near term?

Avik Dey
I think as we look forward, I'm incredibly excited about the executive team we've assembled. It's come together, the full team is in place, and importantly, we've divided the organization into corporate services, asset management, asset management being engineering, construction and operations, and then commercial. The focus over the coming months is to coordinate our commercial efforts across our existing businesses.

So, as you've heard us say, whether it's at investor presentations or through the last couple of quarters, we have a core competency around managing dispatchable baseload power generation that's utility-scale. That today for the most part, is thermal generation, gas-fired generation.

We believe firmly that any part of achieving net zero in the markets we focus in, needs companies to focus on that reliability first. And we also see that as the entry point and catalyst for building decarbonization strategies. If we're an incumbent in an existing electricity market with existing interconnects and incumbency around trading and working with wholesale customers, we think we're best positioned to grow decarbonization solutions.

So, the three-pronged strategy that we have historically employed around mid-merit gas, renewable, and decarbonization solutions, you can expect an evolution of that to focus more clearly on what our core markets are and how we build net zero pathways in those markets with increasing flexibility.

But the notion of anchoring around mid-merit natural gas assets is absolutely on point. And you'll see more clarity around which markets we like, why we like them, and how we intend to grow in them.

And I think the team, because of our focus now between corporate services, asset management, which is primarily focused on building and running our assets optimally, and then the clarity around our commercial vision, I think you'll see us do more in that regard and provide more clarity around what those core markets are, which we've already talked about.

Alberta, Ontario, MISO, Desert Southwest now, as I answered David's question around Fredrickson 1, we see a growing opportunity in the Western U.S. as well, which we've talked about in the past also.

Operator

Thank you, one moment for questions. Our next question comes from Mark Jarvi with CIBC, you may proceed.

Mark Jarvi
Hi, good morning. Coming back to the Frederickson transaction, obviously, the valuation looks pretty attractive. But just wondering how you weigh a decision to move forward on investment versus capital availability, liquidity. Has anything changed in terms of how you're thinking about deploying capital, given cost of capital is a bit higher today, maybe a little tighter internal funding sort of updated views on just your willingness on what deals to do right now?

Avik Dey
Sure. Maybe I'll start and Sandra can follow. I think this company over a long period of time has had a core focus around balance sheet discipline as a governor to how we look at acquisitions or growth opportunities. I think that will continue to be the case. I think where we are right now, this organization has also been really good at having conviction around which markets offer us opportunity from a generation perspective, in particular on identifying assets we think we can contract or capture value that the broader market doesn't see.

So, to the extent that we can do it while maintaining our balance sheet strength and doing it accretively, we'll continue to look at those opportunities that fit within our balance sheet capacity.

We don't expect that to change. I think we do expect to be more creative around how we solicit partners and a broader universe of partners so that we can do things that are larger. But I would expect us to do more and be consistent with that approach.

Sandra, do you want to add anything to that?

Sandra Haskins
Yes. I think you pretty much covered it. I would say when we're looking at something like the Fredrickson acquisition, we do factor in what the current costs of funding are when we're making that decision. So, we haven't found that we're in a position where we're unable to move forward with the right acquisitions at this point in time.

Mark Jarvi
And then, Sandra, can you comment in terms of where you sit overall and just capital availability, liquidity post-Fredrickson, if you had more investments to come up, how much can you internally finance? What sort of becomes a limiter in terms of, I guess, internally available cash flow and balance sheet capacity relative to maybe external equity needs?

Sandra Haskins
Yes. So when you look at what we've got committed at this point in time, there's no need for incremental equity. As you recall, we turned on the DRIP last quarter and we see that that provides us with the required equity cushion that we need and would find other forms of financing in the terms of various forms of debt. So, looking at our FFO to debt metric, it's very unconstrained in this year. And when we're looking at next year, we still are remaining an investment-grade credit rating, even with the incremental financing for the new project to find that we've got the liquidity to do what's in the hopper.

And even after we did that math, we were still able to bring Frederickson into the fold without having to raise equity on the back of that transaction. So still have capacity and particularly incremental development capacity as you look at the build spend profiles that we continue to look at opportunities there as well as other acquisitions. So, depending on where we're successful, we'll drive the financing needs go forward. But at this point, we're well situated.

Mark Jarvi
Can you quantify sort of the capacity you have right now for incremental investments?

Sandra Haskins
It would really depend on the timing of it and what that, how accretive that investment was, so it's hard to give you an exact number on that.

Mark Jarvi
And then, just coming back to the question around the throne speech and some of the comments from Premier Smith, and then Avik, your comments about energy-only seems like the right fit, you believe for yourselves and the market in Alberta. So, what would you see as sort of options, not capacity options, but other things to address reliability, you could see come in the market? And do you think there'll be anything they would do in terms of changing the bidding scheme in the market in terms of block bidding or anything like that?

Avik Dey
Yes. I think it's early days to discuss specifics around bidding or how the fundamental market structure works. I think what our expectation is at the moment is to really address some of the interconnect and congestion issues, which you could assume to be through some sort of ancillary service changes or products that would come to bear in the market that don't exist today. In terms of the fundamentals of energy-only and seeing changes in how bidding strategy comes, I don't -- we don't foresee that at the moment.

I think as the Throne Speech indicated, the primary driver around that is ensuring long-term decarbonization, new capacity, and addressing some of the short-term reliability issues. Whether that reflects broader changes on the affordability piece, it's really around regulated rate options for consumers.

So, I think there's an open-ended question there around what impact that would have directly on generation.

Mark Jarvi
Okay. And last one for me. Just on the CER East Windsor, the date of January 1 for the new capacity coming in. Is that something you'll be advocating to maybe address that, maybe push that out a little bit in terms of how you think East Windsor expansion might fit with the current rules under the Draft legislation?

Avik Dey
I think I would go back to my previous response on CER comments are due for Draft 1 tomorrow. We've been in active dialogue on that from a federal perspective, but also from Ontario, Alberta, British Columbia perspective, given that's where we have existing fleet. And we expect constructive feedback as we move towards the next phase of the legislation.

Mark Jarvi
Understood. Thanks for the time today.

Operator
Thank you, one moment for questions. Our next question comes from John Mould with TD Securities. You may proceed.

John Mould
Okay, thanks. Good morning, everybody. Maybe just going back to the market structure question and very much appreciated early days for all this. But just wondering if you have an

expectation just around the timing of this process and just thinking back to the capacity marketing. That was a pretty detailed stakeholder process that the AESO ran and government proposals do include some more fundamental market structure changes, whether there's a capacity market, whether there's a mandatory energy forward contracting. And does that create market structure uncertainty that makes it tougher to make an FID on projects in Alberta?

Just appreciate your thoughts there.

Avik Dey
I think without commenting specifically on Alberta, investors are always looking for certainty to make capital allocation decisions. We're no different. And so, the clarity provided by the IRA in the U.S. to encourage capital investment is something we can look to set a benchmark for making those long-term capital decisions. So, I think we understand and agree with that there needs to be some tweaks to the system in Alberta to accommodate congestion and the changing supply mix.

But from a capital allocation perspective, we need certainty. So, we're in a different position than a newcomer given our incumbency in Alberta and leadership position in Alberta. So, on balance, we may be willing to take risks that a newcomer won't. But you cannot underappreciate the value of certainty to making those decisions. And I think we look at that investment decision in Alberta, the same as we would in Washington for Frederickson or Michigan for MCV or Ontario for our growth projects.

So, we take all of that into account as we make those capital allocation decisions.

John Mould
That's great context. And then, maybe just one on building regional scale. You're going to see some real scale in Ontario once you're, you've got it already, but even more so with your next set of growth projects coming online. And you've got core gas assets now in a number of, let's say, U.S. kind of regional markets. And I'm wondering at this point, there is a market in the U.S. where you're seeing potential to gradually build something like your Ontario projects, like your platform in Ontario.

Avik Dey
I think we do. And I think we've talked about this previously as well. But I think in MISO, Western U.S., and Ontario, we see similar situations that not only can we acquire critical natural gas assets, but we can build decarbonization solutions around that, given the incumbent positions there.

So, whether it's because we've got existing assets, interconnections, relationships, building out storage solutions, renewables capacity, or even looking at things like CCS, what we've seen in Alberta and we've been endowed a great privilege of being a leader in the Alberta market is that incumbency gives us a great advantage.

So that's how we've been able to lean in over the last 6 or 7 years and identify critical assets that we had conviction that we could go uprate or extend or re-contract and have demonstrated we can do that. So, we're really applying that same strategy now. But to answer your question directly, Ontario, MISO, Western U.S. are all right down the middle of the fairway that we see similar opportunities in.

John Mould
That’s great, thanks very much for that context, I’ll get back in the queue.

Operator
One moment for questions. Our next question comes from Ben Pham with BMO Capital Markets. You may proceed.

Benjamin Pham
Hi, thanks. Just on that last question, your response on the U.S. market, historically, M&A and maybe you can build organic growth, would that coincide with you having some sort of U.S. head as part of your executive changes?

Avik Dey
That's correct.

Benjamin Pham
I got you. So you don't have a day necessary because it's more focused on M&A than U.S.?

Avik Dey
Well, we're structuring, so with the announcement of Jason Comandante taking on leadership of Canada, we are similarly looking at the U.S. in having a more U.S.-centric structure to help oversee the assets there. So, we don't have someone in place today, but the structure is in place today where we've got Canada reporting into Bryan DeNeve as Chief Commercial Officer and similarly, our U.S. Commercial Operation is going to be reporting into Bryan as well.

Benjamin Pham
Understood, and I wanted to also follow up on the Throne Speech market structure. I wanted to more clarify, I know there's maybe I read that capacity markets is being evaluated, but there's not really any specific comment from the government on that. And if you can share if possible in your conversations with them, is part of considering a capacity market is that coming up in conversations?

Avik Dey
It's interesting that it's come up on this call a few times now. But I have personally not heard the word capacity market uttered in the conversations to date. The conversations have been around what ancillary services do we need to add to address the market issues today. So, I personally haven't heard that in all of the conversations I've had. So, I think there's a -- the notion that we've been through this before and the market and the regulator and government have gone down the path of evaluating the capacity market and decided that the energy-only market was the right way forward is where we landed previously.

And it feels as though today, the focus is on what specific tweaks and changes do we need to make to the market to reflect the challenges that we're facing right now today because of how successful we've been on renewables penetration in the market itself. So, I haven't heard that.

Benjamin Pham
Okay. That makes sense. I just wanted to make sure we’re more squared up on that with some of the comments and your responses. And then, maybe lastly, the renewables versus gas and looking at your backlog, any updated thoughts on that and relative attractiveness?

Avik Dey
I think for us, what's interesting is I think the access to grid critical infrastructure, i.e., interconnects, is growing in value. And the best way to capture that is through buying existing connected assets, which is generally natural gas assets. I think on the renewables front, we continue to see opportunities to develop. But I think our cost of capital isn't consistent with trying to go buy operating assets, for example.

We haven't seen that bid-ask spread close to date. So, from an acquisition front, continuing to look at natural gas assets, where we think we can bring our comparative advantages to bear and we've got a clear strategic advantage there to not just price the asset but to optimize the asset. That will continue to be a focus. And then I think on development, we'll continue to see renewables be a focus in that regard.

Benjamin Pham
Okay, thanks Avik.

Operator
Thank you, and as a reminder to ask a question please press *11. One moment for questions. Our next question comes from Patrick Kenny with National Bank Financial. You may proceed.

Patrick Kenny
Thank you. Good morning. Just to come back to the Genesee Repowering. I know both units are still on track for the first half of next year. But just in light of some other larger projects in Western Canada, finally approaching completion, others may be taking a little bit longer. But, have there been any surprises, positive or negative, on just how labour availability or productivity has been trending recently, say, compared to your base case assumption earlier in the summer to meet those in-service dates?

Avik Dey
Yes, thanks Pat. So, what I would say is we've seen market improvement on labour availability and lower absenteeism at Repowering through the summer, and that was based on our recast on the revised schedule and the revised budget that we put forward in the second quarter. I think the question is around materiality of changes in dates. So as you said, we continue to be targeting midyear next year.

We continue to see volatility in that absenteeism. So, the trend has been better than where we were running up to in the summer. But across the board, it continues to be a challenge. But we've seen positive results from the intervention. So, I think the precise dates are somewhat of a moving target. But generally, at a macro level, we're quite satisfied with the improvements we've seen.

Patrick Kenny
Okay thanks for that Avik. And then maybe for Sandra. Apologies if I missed it. But just on the heels of the Frederickson acquisition and rebidding the North Carolina projects. How are you thinking about fitting some non-core asset divestitures or selling minority interests as part of the overall funding plan for next year?

Sandra Haskins
Yes. You've heard me say many times before that we do feel that based on our build multiple selling down a position of our portfolio or a part of our portfolio would make a lot of sense. So, I do see that as a funding avenue that is available for us and look at just sort of where the market is at any given point in time and what our need for capital is. So certainly, we'd have that right up there in the mix with our other options for funding for next year.

Patrick Kenny
Okay, that’s perfect. That’s it for me, I’ll leave it there.

Operator
This concludes the question-and-answer session. I would now like to turn the conference back over to Ms. Kat Perron for any closing remarks. Kat, I'm turning it over to you for closing remarks.

Katherine Perron
Thanks, Josh. If there are no more questions, we will conclude our

conference call. Thanks again for joining us and for your interest in Capital Power. Today's presentation and webcast will be made available on capitalpower.com. Have a great day.

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