

Capital Power Income LP 2009 Fourth Quarter and Year End Review Conference Call
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PRESENTATION

Operator

Welcome to Capital Power Income LP's 2009 Year End Review Analyst conference call. At this time, all participants are in a listen-only mode. Following the presentation we will conduct a question and answer session. Instructions will be given at that time for you to queue up for questions. If you have any difficulty hearing the conference, please press star, followed by zero for operator assistance at any time. I would like to remind everyone that this conference call is being recorded on Friday, March 5, 2010 at 11:00 a.m. Mountain Time.

I would now like to turn the call over to Randy Mah, Senior Manager, Investor Relations. Please go ahead.

Randy Mah, Senior Manager, Investor Relations

Good morning and thank you for joining us today to review the fourth quarter and year end 2009 results for

Capital Power Income LP. The financial results and the presentation slides for this conference call are posted on the Partnership's website at www.capitalpowerincome.ca. This conference call is also being webcast from our website.

Joining me on the conference call is Stuart Lee, President and Tony Scozzafava, Chief Financial Officer. After the presentation we will open up the lines for your questions.

Before we begin, let me direct your attention to the cautionary statement regarding forward-looking information on slide number two. Certain information in this presentation and in oral answers to questions, contain forward-looking information. Actual results could differ materially from conclusions, forecasts or projections in the forward-looking information and certain material factors or assumptions that were applied in drawing conclusions or making forecasts or projections as reflected in the forward-looking information.

Additional information about the material factors or risks that could cause actual results to differ materially from the conclusions, forecasts or projections in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion, or making a forecast or projection as reflected in the forward-looking information is contained on pages 15 to 16 of this presentation and in our 2009 MD&A and other disclosure documents filed with securities regulators on SEDAR at www.sedar.com.

With that out of the way, I'll turn the call over to Stuart.

Stuart Lee, President

Thanks Randy. I'll begin my remarks starting on slide three with the corporate update. Operating cash flows in the fourth quarter of 2009 were in line with our expectations. Operating margin before fair value change was down 4.6 percent year-over-year, due primarily to lower margins on the Ontario and North Carolina facilities.

In the fourth quarter, the payout ratio was 76 percent compared to 124 percent in the fourth quarter of 2008. The Partnership had good operating results with power generation of 1,405 gigawatt hours, up 1.5 percent from the prior year. The weighted average plant availability was 92 percent in the quarter compared with 94 percent in the fourth quarter of 2008.

In January, we finalized amendments to the Tunis PPA with OEFC to address the mismatch of the fuel supply with the PPA when the PPA term expires. The amendment will allow the Partnership to flow through any deviation of natural gas and tolling costs from benchmark amounts to OEFC. In return, the OEFC has the right to curtail the plant during summer off-peak periods through the remaining term of the PPA in 2014. We expect enhanced annual operating margins from this arrangement based on current gas forward prices.

In terms of the PPA renewal for the two North Carolina facilities, an arbitration decision is expected later in the second quarter or early third quarter of this year. In the mean time, the two plants continue to operate under the terms of the PPA that expired at the end of 2009.

Turning to slide four, I will review our performance against the eight corporate priorities for 2009 that we set at the beginning of 2009. The four priorities listed on the slide involve commercial negotiations with counterparties with the goal of maintaining stable cash flows. As mentioned, the Tunis PPA has been amended that eliminates the natural gas price exposure from the expiry mismatch of the PPA in the fuel supply agreement.

With the continued slowdown in the forestry industry it created supply shortages for all biomass facilities in the industry, including our two biomass facilities at Calstock and Williams Lake. At Calstock we have sourced new supply from a nearby wood waste landfill site. The landfill site has an equivalent to three years of supply. At Williams Lake we negotiated commercial arrangements with BC Hydro on a temporary four month outage in 2009. During this outage we continue to receive fixed energy payments from BC Hydro, while increasing our wood waste inventory from low cost suppliers. Both Calstock and Williams Lake generated stable operating margins despite the supply challenges.

As mentioned, we have filed for arbitration with NCUC for the Roxboro and Southport PPAs and an arbitration decision is expected mid-year of 2010.

The last priority on the slide is negotiating with US Navy impacts from the short-run avoided costs, or SRAC. The California Public Utility Commission implemented a revised SRAC cost formula in 2009. The essence of that decision was to provide a 50/50 split between the market index rates and administrative heat rate for the calculation of the overall heat rate using a compensation calculation. It increases the amount of variable operating cost, included in the determination of the SRAC amount.

The SRAC change impacts the steam payment components of the PPAs that we received from the naval facilities and we're currently in discussions with the US Navy on the implications of future steam pricing going forward. As this priority is still outstanding, we have carried this priority forward to 2010.

Moving to slide five and the remaining four corporate priorities for 2009. Our investment in Primary Energy Recycling Holdings, or PERH, was impacted last year when PERH converted all of its preferred shares into common shares in a recapitalization. We exercised our pre-emptive right to maintain our pro-rata 14.3 percent interest in PERH at a cost of \$8.3 million US. We continue to monitor the PERH investment. However, we have a net book value of PERH is less than two percent of our overall assets and is not material to the Partnership.

The repowering of North Island facility was completed slightly ahead of schedule with a final project cost of approximately \$18 million, \$1 million less than budgeted.

The construction of the enhancements of Roxboro and Southport facilities were not completed in 2009. There were several challenges in retrofitting the existing facilities that delayed the project schedule and increased cost from \$80 million to \$87 million US. The majority of the enhancements to the North Carolina facilities have been completed with only the second unit at Southport remaining, which is expected to be completed by the second quarter of this year.

The last corporate priority is evaluating acquisition and development opportunities. As mentioned, we have completed the development at North Island and the majority of the enhancements at the North Carolina facilities. They're expected to help stabilize cash flows. As an organization we'll continue to evaluate opportunities and execute on those opportunities that meet our criterion, including being accretive to cash flow on a per unit basis.

I'll now turn the call over to Tony to review the financial highlights.

Tony Scozzafava, Chief Financial Officer

Thanks Stuart. Turning to slide six. This slide summarizes the financial highlights for the fourth quarter of 2009. The Partnership generated revenues, excluding fair value changes of \$129.8 million, down 12 percent from the same period a year ago. To add a bit of colour to the change, I'd like to highlight that over half of that

change is attributable to foreign exchange differences on the US revenues. Ignoring those differences, Canadian revenues were generally flat for the quarter and in the US there were decreases in North Carolina facilities and the California facilities, which were offset by Curtis Palmer.

Operating margin, also before fair value changes, was \$49.9 million in the fourth quarter. This was down 4.6 percent from the same period a year ago, primarily due to lower margins from the Ontario and North Carolina facilities due to low natural gas prices.

Cash provided by operating activities of continued operations was \$39.1 million, down 31 percent from the prior year. Please note that this was primarily attributable to changes in working capital. I'll take you through the details in a moment. However, cash provided by operating activities from continued operations excluding these working capital changes was \$35.3 million in the fourth quarter of 2009 compared to \$34.5 million for the same period last year.

Declared cash distributions up \$23.8 million in the fourth quarter were down 30 percent from the prior year, reflecting a reduction in distribution effective the second quarter of 2009. Capital expenditures of \$30 million in the quarter was up 40 percent from the prior year. The payout ratio in the quarter was 76 percent, significantly more conservative than the 124 percent last year, reflecting the reduction in the distributions.

Turning to the next slide, slide seven. This slide shows the continuity of cash provided from operating activities of continued operations from \$56.5 million in the fourth quarter of 2008 to \$39.1 million in the fourth quarter of 2009. You'll note that the year-over-year increase illustrated on the slide is skewed by the \$18.2 million decrease in changes in working capital. The other decreases in cash flow were due to \$2.2 million in lower operating margins for both Ontario and North Carolina plants and higher cash taxes of \$1.6 million and \$1.2 million in higher preferred share dividends resulting from the issuance that took place in the fourth quarter of 2009.

The decreases were partially offset by higher operating margins at the Morris facility acquired in October 2008 and higher operating margins of \$2.5 million from Curtis Palmer due to increased pricing in the PPA.

Turning to the next slide, slide eight. I'd like to now review the 2009 annual financial results. The Partnership generated revenue, excluding fair value changes once again, of \$527.7 million, down seven percent from 2008. Outlining the key differences in this decrease, Ontario was down as was North Carolina and this was slightly

offset by increases at Curtis Palmer and in Morris because of the acquisition in Q3 of 2008.

Operating margins, also before value changes, was \$205.3 million in 2009. This was down 2.2 from 2008, primarily reflecting the impact of low natural gas prices impacting Ontario and North Carolina facilities. This was offset by Morris and Curtis Palmer.

Cash provided by operating activities of continued operations was \$139.7 million, down 11 percent from 2008 which I'll discuss in a moment. Declared cash distributions of \$105.2 million in 2009 were down 23 percent from 2008, again reflecting a reduction in distribution in the second quarter of 2009.

Capital expenditures, including maintenance capex of \$20 million, totalled \$105.9 million in 2009, up 165 percent from 2008 primarily reflecting North Carolina enhancement project of \$65 million and \$15.7 for the repowering of North Island.

The payout ratio in 2009 was 86 percent, compared to 111 percent in 2008.

Turning to slide nine, this slide shows the continuity of cash provided from operating activities of continued operations from \$157.5 million in 2008 to \$139.7 million in 2009. Note that the year-over-year decrease is impacted by \$16.4 million decrease in changes in working capital in the system. The other decreases in cash flows were due to lower operating margins of \$16.8 million and \$11.2 million from the Ontario and North Carolina plants respectively and higher interest expense of \$4.1 million.

These decreases were partially offset by higher operating margins of \$17.5 million from the Morris facility acquired in 2008, higher operating margin of \$7 million and \$4.7 million from Curtis Palmer and the Northwest US plant respectively and \$2.6 million in lower management and administration costs.

I will now discuss, if you turn to slide 10, the financial outlook for go-forward. Our forecast for capital expenditures in 2010 is expected to be approximately \$55 to \$57 million. This consists of approximately \$22 to \$24 million of maintenance capex, which is \$2 to \$4 million higher than the 5-year planning cycle maintenance of \$20 to \$22 million. As you can see from the slide, annual maintenance capex is forecasted to be \$20 to \$22 million from 2010 to 2014. Growth capex in 2010 is expected to be approximately \$33 million for two major power projects, repowering of the Oxnard facility and to

complete the enhancements of the second unit at Southport.

Turning to slide 11. This slide summarizes the outlook for 2011 SIFT tax. We have optimized the capital structure to defer the impact of cash taxes on distributable income starting in 2011. Currently, we do not expect to make cash payments until 2015 or 16 based on our existing portfolio of assets. Further, any acquisition or development activity may have the potential to extend the dates out further.

At the end of 2009 there were approximately \$377 million in Canadian tax pools available to deduct against future taxable income once SIFT legislation is effective in 2011. With the Partnership operating in both Canada and the US, the combination of sourced cash flow from both countries continues to provide a competitive advantage and facilitates effective tax planning. More than half of the Partnership's operating margin is generated from the US and therefore is not even affected by the SIFT legislation.

As a result, because of this and other reasons, there is no compelling need at this time to convert the Partnership to a corporation. The Partnership's current tax position provides significant flexibility to mitigate the impact of SIFT legislation and we will continue to evaluate our options as the environment develops.

Moving to slide 12. I would like to close with our financial outlook for 2010. Overall, 2010 cash flow from operations before working capital changes is expected to be lower than 2009. Items that are expected to be positive to cash flow from operations compared to 2009 include an expectation of higher dispatch and renewal of PPAs under economic terms for the North Carolina facilities.

An expectation at Equistar will emerge from Chapter 11 with no impact to the Morris facility operation. We also expect a settlement for the US \$11 million owing for services provided prior to Chapter 11 proceedings.

Items that are expected to be negative to cash flow compared to 2009 include: lower operating margins from the Ontario plants and the Williams Lake facility, higher financing costs associated with the issuance of the preferred shares in November 2009, and lower contracted prices on foreign exchange settlement.

Based on our 2010 forecasted five-year outlook, the current distribution of \$1.76 can be comfortably maintained at least until the end of 2014 based on the existing cash flows.

I will now turn it back to Stuart.

Stuart Lee, President

Thanks Tony. I'll wrap up with a review of our seven corporate priorities for 2010 as shown on slide 13. The corporate priorities include finalizing negotiations for the Southport and Roxboro PPAs, completing construction of the enhancements at the Southport facility, renegotiating the PPA for our Nipigon facility which expires in 2012, negotiating with the US Navy to minimize the impact of SRAC, repowering the Oxnard facility with a new LM6000 gas turbine, optimizing waste heat margins at the Ontario gas facilities, and executing a development or acquisition opportunity.

Overall, the Partnership's primary focus in 2010 will be on improving cash flows from existing operations and commercial arrangements and seeking accretive growth opportunities.

I'll now turn the call back to Randy.

Randy Mah, Senior Manager, Investor Relations

Okay, thanks Stuart. Donna, we're ready to start the question and answer session.

QUESTION AND ANSWER SESSION

Operator

Thank you, Mr. Mah. If you have a question at this time and you're using a speaker phone, please lift the handset before making your selection. To register, please press star, one on your telephone keypad. To cancel your question, please press the pound sign. Please press star, one at this time. There will be a brief pause while participants register. Thank you for your patience.

And the first question is from Matthew Akman from Macquarie. Please go ahead.

Matthew Akman, Macquarie Capital Markets

Thank you. Stuart, just on the Morris contribution, I'm just wondering about the seeming discrepancy between slide nine where it says increased contribution of \$17.5 million and then on page 21 of the disclosure, operating

margins from Morris was \$13.8 million for the year. So what's the difference between that and—how can the cash flow be higher than that? I must be missing something.

Stuart Lee, President

I think the biggest difference, the operating margins, I think when we calculate that would be—we include on that a deferred revenue piece.

Tony Scozzafava, Chief Financial Officer

Deferred revenue is included in that difference, as well as the provision that we took on the amount owing in 2008 is impacting that.

Matthew Akman, Macquarie Capital Markets

Okay, I see. Okay. What was that, sorry? The provision was again how much?

Tony Scozzafava, Chief Financial Officer

Two point one. Two point four, sorry.

Matthew Akman, Macquarie Capital Markets

Okay. Okay and then the deferred revenue. Thank you for that clarification. I'm just wondering what you didn't in the last slide when you talked about the outlook for 2010. You didn't say anything about California, or the second last slide. I think at your Investor Day you were saying you expected a little bit of margin pressure there from the SRAC. Is there an update there?

Stuart Lee, President

Again, I think our expectation would be pretty minimal. I think our forecast is maybe around \$1 million of potential impact from California.

Matthew Akman, Macquarie Capital Markets

Okay, thanks. That's all I had, guys.

Stuart Lee, President

Okay, thanks.

Operator

Thank you. The next question is from Tony Courtright from Scotia Capital. Please go ahead.

Tony Courtright, Scotia Capital

Thank you. You've indicated your primary focus for this year is on improving cash flows from existing operations and commercial arrangements, but also indicate seeking accretive growth opportunities. Can you comment on that? Do you feel that, what sort of opportunities are available and how do you view them relative to your cost of capital and the competition?

Stuart Lee, President

Okay, thanks Tony. You know I think as we've mentioned on probably the last couple calls, as we've been looking at particularly acquisition opportunities it's been a little bit challenging environment just because the discrepancies between the views of buyers and sellers. And I think you will see relatively few transactions in the market place. That view that we have is shared by other participants but I think we are seeing that gap starting to narrow and certainly, I would characterize the existing environment in the power industry is probably the most favourable we've seen in the last couple of years. And so we are looking at and are active in discussions with various parties on assets and I think those continue to move forward and like I say, probably in better position today than what we've seen in the last couple of years.

Tony Courtright, Scotia Capital

In terms of focus, would they be thermal, renewable or even geographic? Is the whole continent available?

Stuart Lee, President

So the focus really for us right now is general opportunities in the US. And that's where we're seeing most of the assets that are available.

Tony Courtright, Scotia Capital

And in terms of shovel-ready, say greenfield opportunities, would that be something that the Partnership would consider, or not. Would prefer to buy spinning assets?

Stuart Lee, President

The bias is towards spinning assets obviously in this type of vehicle. Having said that, if there are good opportunities on the development side, particularly that have a shorter life cycle on the development, we continue to show interest in that and continue to evaluate those opportunities as well.

Tony Courtright, Scotia Capital

All right, thank you.

Operator

Thank you. The next question is from Nelson Ng from RBC Capital Markets. Please go ahead.

Nelson Ng, RBC Capital Markets

Thanks, just a question on investing opportunities. So, I guess in the past year you've invested on repowering and enhancing existing facilities. Do you think you've kind of picked the low hanging fruit or do you see additional investment opportunities on the existing portfolio of assets?

Stuart Lee, President

Yeah, I think you've seen us invest. We'll be investing in 2010 at the Oxnard facility and so expect again consistent when we saw from North Island that that will be a very successful project. As we look at other opportunities within the fleet, we do think there are some other opportunities and continue to look at them. They're probably not as imminent or over the next year I don't know that we'll see anything significant as far as opportunities, but we are certainly evaluating at a couple different facilities in Ontario, Colorado and Southern California.

Nelson Ng, RBC Capital Markets

Okay, thanks. I have no further questions.

Operator

Thank you. Once again, if you have a question please press star, one on your telephone keypad. The next question is from Michael McGowan from BMO Capital Markets. Please go ahead.

Michael McGowan, BMO Capital Markets

Hi, good afternoon. I have a question about the work you're doing at Southport and Roxboro. That should be completed fairly soon, but you're still going to be selling electricity under your existing PPA. Will that new work that's completed, will it allow you to increase the efficiency at all with respect to those plants and potentially earn slightly higher margins until the arbitration is completed?

Stuart Lee, President

It should, Michael, and what we're seeing is that we have lowered the cost associated with fuel because we're using, in particular, more biomass and more tire-derived fuel which has a lower cost than coal and as a result, we're seeing dispatch up from what we've seen previously at, particularly at, Roxboro and with unit one at Southport.

Michael McGowan, BMO Capital Markets

Is it possible to quantify the savings at all?

Stuart Lee, President

I don't have those numbers in front of me.

Michael McGowan, BMO Capital Markets

Okay. And I guess there was a note in your financial release about Calstock and how some of its emission releases were slightly higher than I guess those specified under the existing environmental documents there. Is there any chance that that will trigger a liability in 2010?

Stuart Lee, President

We wouldn't expect so.

Michael McGowan, BMO Capital Markets

No? Okay. Those are my questions. Thanks.

Stuart Lee, President

Thanks Mike.

Operator

Thank you. There are no further questions registered at this time. I'm sorry. We have a question from Juan Plessis from Canaccord. Please go ahead.

Juan Plessis, Canaccord

Hi. Thank you. With regard to the North Carolina plants, you mentioned you filed for arbitration with the NCUC. You mentioned in the MD&A you filed for prices consistent with Progress' avoided cost. Can you give us any colour on what these prices are and how they compare to what you're receiving or are receiving under the agreement now?

Stuart Lee, President

I can't get too specific, Juan, just because of obviously it's in arbitration, but what I would characterize it is, they are certainly higher than our existing—the existing prices that we've seen under the contract currently and they are considerably lower than what Progress had filed for in their application to build new gas facilities. And so, we're of the strong belief that what we put in for would be beneficial to North Carolina rate payers because it's certainly cheaper generation than building new gas facilities.

Juan Plessis, Canaccord

Okay, so if you got what you asked for you could see some upside in those contracts.

Stuart Lee, President

Correct.

Juan Plessis, Canaccord

Great, thank you.

Stuart Lee, President

Thank you.

Operator

Thank you. There are no further questions registered at this time, Mr. Mah.

Randy Mah, Senior Manager, Investor Relations

Okay, if there are no more further questions we'll wrap up our call. Thanks again for your interest in Capital Power Income LP and we'll look forward to working with you over the coming quarters.
