

CPI Income Services Ltd.

Corporate Governance Policy

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Corporate Governance Policy

A. Introduction

CPI Income Services Ltd. (the “General Partner”) is the General Partner of CapitalPower Income L.P. (the “Partnership”). The Board of Directors of the General Partner (the “Board”) and the General Partner’s management (“Management”) are committed to maintaining a high standard of corporate governance for the Partnership and employ the following corporate governance processes and structure to direct and manage the Partnership’s business in such a way as to enhance unitholder value and ensure the ongoing sustainability of the Partnership’s business by taking into account its impact on other stakeholders (such as employees, customers, suppliers, lenders and communities) and the natural environment.

The Board has responsibility for the overall stewardship of the Partnership, by establishing the policies and standards that govern the operation of the Partnership’s business and reviewing and approving the Partnership’s strategic plans and objectives. Day-to-day management of the Partnership’s assets and operations is the responsibility of CP Regional Power Services Limited Partnership (the “Manager”) and the Board also monitors the Manager’s performance and assesses the Manager’s progress toward meeting the Partnership’s goals.

B. Board Organization and Membership

1. Chair of the Board

The Chair of the General Partner serves in an executive capacity and is appointed by the Board, based on recommendations by the Governance Committee.

2. Lead Director

Because there is an executive Chairman, the independent directors of the Board (“Independent Directors”) elect a Lead Director, who (a) ensures appropriate structures and procedures are in place the Board can function independently of Management; (b) chairs Board meetings in the absence of the Board Chair; (c) provides input and advice in respect of Board agenda and minutes, the strategic plan and any other matters raised by the Independent Directors; and (d) chairs the Independent Directors Committee of the Board.

3. Board Size and Minimum Independence Requirement

Although the Amended and Restated Limited Partnership Agreement (the "Partnership Agreement") provides that the Board shall consist of seven members of which not less than three shall be Independent Directors, the Board of Directors determined that it would be in the best interests of the Partnership if the Board was composed of not less than 8 members, at least 4 of whom shall be Independent Directors who are not officers, directors or employees of the Manager, its subsidiaries or affiliates, and who are free from any direct or indirect interest, and any business or other relationship that could interfere with their independence or ability to act in the best interests of the Partnership. This is interpreted to mean that Independent Directors should not own interests in any affiliate of the Manager and that Independent Directors should declare any relationship they have with a material customer of, or supplier to, the Partnership. (See [Partnership Agreement at Capital Power Income L.P. website](#))

The remaining four directors are appointed by the sole shareholder of the General Partner, unless the interest held by its limited partner affiliate falls below thirty percent (30%) of the issued and outstanding Partnership units.

In the event of a tie vote at the Board, the Chair has a casting vote.

4. Primary Employment Status Change

The Board has adopted a policy that requires any director whose primary employment status changes to notify the Chair of the Governance Committee. It is not intended that directors who retire or whose professional positions change should necessarily leave the Board. The Governance Committee has the responsibility to assess the continued appropriateness of Board membership under such circumstances.

5. Director Appointment & Tenure on the Board

The Partnership Agreement provides that the sole shareholder of the General Partner elects the Board annually.

The Board does not believe it should establish a fixed term for membership on the Board. While fixed terms could help ensure that there are fresh ideas and views available to the Board, they present the disadvantage of potentially losing the contribution of directors who have developed significant insight into the Partnership, and its industry, risks, operations and complex governance structure, and who can therefore be expected to provide a consistent contribution to the Board over time.

The Partnership's Governance Committee, in consultation with the Chair and President, regularly reviews the performance of individual directors to determine their suitability or desire to stand for reappointment as directors and provides each director with an opportunity to confirm his or her commitment to continue as a member of the Board.

The Board periodically reviews the mandatory retirement age for directors and has determined that no person shall stand for election or re-election to the Board if he or she attains the age of 70 years prior to the annual election of directors.

C. Board Meetings and Materials

1. Board Meeting Agenda

The Chair and Lead Director in consultation with the President establish the agenda for each Board meeting, however any director may suggest items for inclusion on the agenda in advance of any meeting.

Holding more than two meetings during a single business day is generally discouraged due to the resulting decrease in director effectiveness owing to fatigue during the third meeting.

2. Meeting Materials Distributed in Advance

The Board has determined that information and data that are important to the Board's understanding of business issues should be distributed to the Board no less than three days before each Board meeting to ensure adequate opportunity for review, whenever practical.

3. Non-Directors at Board Meetings

The Board appreciates the value of the regular attendance of Management at each Board meeting.

Attendance by Management is determined by the President with the concurrence of the Chair, except in the case of the Audit Committee whereat the necessity or desirability of attendance by Management is determined by the Chair of the Audit Committee.

4. In Camera Discussions

The Board meets in camera after each regularly scheduled Board meeting to discuss matters of interest independent of any Management influence.

The Independent Directors meet in camera after each regularly scheduled Board meeting to discuss matters of interest independent of any Capital Power Corporation ("Capital Power") influence.

D. Committee Organization and Meetings

1. Board Committees

Each committee of the Board operates according to Board-approved Terms of Reference. The committees are: Audit Committee; Governance Committee; and Independent Directors Committee. There may, however, be occasions on or for which the Board desires to form a new, ad hoc or special committee, depending upon which of its responsibilities can best be fulfilled through a more detailed review of matters in a committee setting. For example, new nominees for directorship are initially considered and recommended by a nominating sub-committee of the Governance Committee to the Board (formed for that limited purpose), before approval by the entire Board and election annually by the shareholder of the General Partner, CPI Income Services Ltd.

2. Independent Committees

The Audit Committee and the Independent Directors' Committee are comprised entirely of Independent Directors. As a matter of policy, the Board believes that there should be a majority of Independent Directors on all other committees as well and that each committee should be chaired by an Independent Director.

In order to assist Board committees in being effective and productive, each Independent Director will participate on one or more committee(s) and become knowledgeable about the purpose and goals of each committee, as required.

3. Committee Meetings

Committee chairs, in consultation with committee members, determine the frequency and length of committee meetings as required to fulfill their respective committee's duties and responsibilities. Each committee reports the results of each of its meetings to the Board.

4. Committee Agenda

The chair of each committee, in consultation with the appropriate members of Management, develops the respective committee's agendas and ensures that the committee meets sufficiently often to discharge its delegated duties and responsibilities.

Each committee adopts a schedule of agenda subjects to be discussed for the ensuing year at the beginning of each year (to the degree these can be foreseen in advance). This forward agenda is reviewed at each meeting to ensure continuing relevance and is provided to the Board for information.

E. Board and Management Responsibilities

1. Board Relationship with Management

The Board supports and encourages Management and the Manager in the performance of their duties. Board members have complete access to Management for relevant information, however it is expected that this contact will not be exercised to the extent of becoming distracting to the business operation of the Partnership and that such contact, if in writing, will be copied to the President.

2. Capital Power Income LP Strategy

The Board believes that, although Management is practically responsible for development of the Partnership's strategy, it is the role of the Board to review, question, validate and approve or disapprove the strategy and any material changes in the strategy.

3. Succession Planning and Management Development

The Board believes that succession planning and development of the Manager's employees are key to the ongoing success of the Partnership. The Manager provides an annual report to the Board regarding the Manager's succession and management development plans.

4. Principal Risks

The Board is responsible for understanding the principal business and other risks associated with the Partnership's business on an ongoing basis and it is the responsibility of Management to ensure that the Board and its committees are kept well informed of these changing risks on a timely basis.

5. Internal Controls and Management Information Systems

Fundamental to the discharge of the Board's overall responsibilities is the existence of control systems that can ensure effective discharge of the Board's responsibilities. A balance has to be achieved between (i) ensuring adequate controls related to financial or other matters that give the Board reasonable assurances that its responsibilities are discharged and, (ii) avoiding the creation of an unnecessarily bureaucratic and costly system of control mechanisms.

The Board, through the work of the Audit Committee, reviews and considers various independent reviews of Management's work, including internal and external audit reports regarding the Partnership's operations, internal controls over financial reporting and disclosure controls and procedures.

6. Board Communications Policy

The Board believes that it is the function of Management to speak for the Partnership in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public, however

the Board, or the appropriate committee thereof, reviews and approves the content of the General Partner's major communications to unitholders and the investing public, including news releases, the quarterly and annual reports together with the accompanying Management Discussion and Analysis, the annual information form, and any prospectus that may be issued.

7. Independent Advisors

Occasionally, the board, one or more of its committees or individual directors may need the services of an independent advisor or expert to assist on matters involving their responsibilities as directors. The Board has determined that any committee or director who wishes to engage an outside advisor at the expense of the Partnership may do so if they first obtain authorization of the Board (in the case of a committee) or the appropriate committee (in the case of an individual).

8. Assessing the Board's Performance

The Governance Committee makes an annual assessment of the overall performance of the Board and reports its findings to the Board. The assessment examines the effectiveness of the Board as a whole and aims to identify any areas in which the Board's performance can be improved.

Each of the committees reviews its own performance regularly and reports the results of its review, and any action plans arising therefrom, to the Board.

The assessment of the performance of individual directors is the responsibility of the Governance Committee and is undertaken on a periodic basis.

9. Preparation and Attendance

To enhance the effectiveness of Board and committee meetings, each Independent Director will: (a) prepare for each Board and committee meeting by reading the reports and background materials provided in advance of the meeting; (b) maintain an excellent Board and committee meeting attendance record; and (c) request information necessary for decision making.

F. Independent Judgment & Conflict of Interest

1. Independent Directors

Independence is a critical quality of an effective Independent Director. Each Independent Director will: (a) think, speak and act independently; (b) be willing to risk rapport with the Chair, other Directors (including other Independent Directors), the President and Capital Power) in taking a reasoned, independent position; (c) disclose to the Board any personal interests that he or she holds that may, or may be perceived to, preclude him or her from acting in the best interests of the Partnership; and (d) ensure that the benefits of unit ownership are spread equitably among all of the Partnership's unit holders.

2. Capital Power-elect Directors

Both the common law and the *Alberta Business Corporations Act* require that a person who acts as a director of one corporation (such as the General Partner, hereinafter the “GP” or “Corporation”) at the request of another company (such as Capital Power Corporation or any one or more of its subsidiaries, collectively “CPC”) act honestly and in good faith with a view towards the best interests of the Corporation. In most situations, the interests of Corporation and CPC will be aligned, however certain circumstances will arise in which the Corporation’s interests and those of CPC are in conflict, including determinations of Manager compensation and any situation in which CPC sells an asset to the Partnership. It is therefore in the best interests of the Partnership for Capital Power-elect Directors to recuse themselves from Board discussions and decisions related to such non-arm’s length matters. In these non-arm’s length situations, the Board is comprised of only Independent Directors.

3. Directors Generally

All of the Partnership’s Directors will: (a) provide wise, thoughtful counsel on a broad range of issues and develop the depth of knowledge necessary to understand and question the assumptions upon which the strategic and business plans are based, and to form an independent judgment as to the probability that such plans can be achieved; (b) demonstrate a high level of financial literacy, know how to read financial statements, and understand the use of financial ratios and other indices for evaluating company performance; (c) be available as a resource to management and the Board; (d) as necessary and appropriate, communicate with the Chair and with the President between meetings; (e) become generally knowledgeable of the business of the Partnership and the power industry generally; (f) maintain a current and general understanding of the regulatory, legislative, business, social and political environments within which the Partnership operates; and (g) visit the Partnership’s facilities when appropriate.

4. Ensuring Independent Judgment

The Governance Committee annually reviews and assesses whether there exist any relationships between an Independent Director and the General Partner or its affiliates, including Capital Power, or the Partnership and, where any relationship exists, whether the director is acting appropriately and in compliance with applicable corporate and securities law so as to ensure independence is maintained.

The Second Amended and Restated Management and Operations Agreement (dated July 23, 2004, as amended by an assignment and novation agreement dated August 31, 2005 among TransCanada Energy Ltd., CPRPSLP and Capital Power LP, and as further amended by a consent and amending agreement made as of July 1, 2009 between CPRPSLP and Power LP, and as further amended on October 26, (collectively, the “O&M Agreement”) prohibits Capital Power-elect Directors from voting in respect of matters in which they have a conflict of interest, but allows the Manager to resolve conflicts in a manner that is fair and reasonable to the partnership when the Manager’s proposed resolution: (a) is

approved by the Independent Directors; (b) involves commercial terms that would otherwise be available from unrelated third parties; and (c) is fair to the Partnership taking into account the totality of the relationship between the parties involved. Moreover, all material transactions entered into by the Partnership must be approved by the Board, however when a material transaction is between the Partnership and the Manager or one or more of the Manager's affiliates or associates: (a) the Manager, its affiliates and associates, and all individual representatives thereof are in a conflict of interest; (b) the transaction must be approved by a majority of the Independent Directors; and (c) Management cannot manage the business aspects of the transaction on behalf of the GP or the Partnership. (See [O&M Agreement at Capital Power Income L.P. website](#))

5. Limits to Management Authority

The O&M Agreement establishes general limits on the Manager's approval authority depending on the nature and size of a proposed transaction. These limits anticipate that some flexibility exists within approved budgets but otherwise must not be exceeded without prior Board or the appropriate committee's approval.

G. Board Orientation and Education

1. Director Orientation

A new Director is provided with an orientation in advance of the first Board meeting at which he or she is expected to appear. The orientation will provide the new Director with a basic understanding of the Partnership and its business and will include written information about the duties and obligations of directors, the business and operations of the Partnership, documents from recent Board meetings, and opportunities for meetings and discussion with senior management and other directors. The details of the orientation of each new director are tailored to that director's individual needs and areas of interest, as well as the activities of the Partnership at the relevant period in time. The new Director is responsible for reviewing materials provided in advance of the orientation and preparing for and attending the orientation session.

2. Director Education

Management prepares and provides each Director with a *Corporate Governance Reference Manual* containing the Partnership's various constating documents and other materials relevant to governance of the Partnership, updated as appropriate. Directors are responsible for reviewing and becoming familiar with the materials contained within the *Corporate Governance Reference Manual*.

Management periodically provides Directors with articles, papers and other materials relating to or addressing issues relevant to the Partnership, its business, and the various regulatory and legal regimes within which it operates. Directors are responsible for reviewing the materials provided and for generally keeping their knowledge of issues relevant to the Partnership current through the media and other public sources of information.

The Partnership reimburses Directors for fifty percent of the cost of attending pre-approved educational conferences, industry symposia and other seminars (including direct out-of-pocket expenses related to travel therefor) when (i) in the Board's opinion, the Partnership will benefit from the Director's attendance at the seminar, and (ii) the claim for reimbursement is accompanied by original receipts.

Directors are provided with tours of sites that are illustrative of each of the various types of facilities and plants owned by the Partnership on a periodic basis. Directors are responsible for attending site tours whenever practicable.

H. Director Compensation

1. Compensation of Capital Power-elect Directors

Capital Power-elect directors are not compensated for their service on the Board, as such service is deemed to be within the course and scope of their employment with Capital Power and extra compensation for such service could create a potential conflict of interest.

2. Compensation Philosophy for Independent Directors

The Partnership desires to attract and retain competent and committed Independent Directors with the requisite skills required to discharge their responsibilities on behalf of the Partnership. To ensure that Independent Director compensation remains competitive and market-based when independently benchmarked relative to a defined industry peer group, and that the principles used for determining the compensation reflect current industry practices, an independent expert is retained no less than every second year to conduct a formal review.

Independent Directors receive a combination of cash retainer, annual unit retainer or cash equivalent, and meeting fees. In addition, given that the Partnership's business model incorporates growth through non-arms length ("NAL") transactions, an additional component of compensation for the Independent Directors is included when these transactions occur and this additional component recognizes the materiality and/or complexity of the transaction and the time required by the Independent Directors to discharge their fiduciary responsibility.

In general, it is the Partnership's philosophy that director compensation should be between the 50th and 75th percentile of the peer group without considering NAL transactions.

3. Annual Board Retainer

Each Independent Director is paid a fixed sum annually as compensation for service on the Board. This retainer is intended to cover all normal course activity related to the role of Independent Director, such as preparation for Board meetings, time spent representing the Partnership at occasional industry events

for business development and government/stakeholder purposes, attendance at director orientation and education activities and standard travel time.

4. Board Meeting Fees

A meeting fee is paid to Independent Directors for each Board meeting attended, whether in person or by telephone, and is intended to compensate the Independent Directors for all preparation, attendance and ordinary course follow up activities associated with any Board meeting. The level of fee paid for attendance at telephonic meetings lasting one hour or less is 50% of the regular meeting fee.

5. Committee Chair Retainer

The Chair of each standing Committee of the Board receives an annual retainer, in addition to the Board retainer, which is intended to compensate the Director for the additional responsibility, time and effort involved in chairing the relevant Committee.

6. Committee Meeting Fees

A meeting fee is paid to the Chair and Independent Director members of each Committee for each Committee meeting attended in person or by telephone, and is intended to compensate the Independent Directors for all preparation, attendance and ordinary course follow up activities associated with any Committee meeting. The level of fee paid for attendance at telephonic Committee meetings lasting one hour or less is 50% of the regular meeting fee.

7. Travel-related Compensation

Independent Directors are reimbursed for all necessary and reasonable travel expenses but are not generally compensated for travel time, however a travel allowance is paid in addition to the regular attendance fees whenever an Independent Director: (a) must travel for four hours or more from his or her place of residence to or from a Board or Committee meeting; or (b) is required to spend a night away from home.

8. Non-Arm's Length Transactions and other Special Assignments

For material and/or complex non-arm's length transactions between the Manager or one of its affiliates and the General Partner or the Partnership, the Board has authorized an additional cash retainer be paid to Independent Directors in addition to necessary meeting fees. For less material and/or complex transactions, the additional compensation payable to directors will be confined to meeting fees.

When an Independent Director is asked to perform a special assignment on behalf of the Partnership (such as recruitment of new directors or because of their unique qualifications), they will also be paid a daily rate equivalent to a meeting fee.

9. Unit Ownership by Independent Directors

The Board has determined that ownership of Partnership units by Independent Directors is a positive step toward aligning their interests with those of other non-Capital Power unitholders. The Canadian-resident Independent Directors are therefore asked to invest the after-tax portion of their Annual Unit Retainers in Partnership units.

Independent Directors who are resident in the U.S. are ineligible to hold Partnership units, so they are instead given an equivalent amount of “phantom units” which could be purchased with (U.S.) \$25,000. These “phantom units” are then held in trust until such time as a U.S.-resident Independent Director leaves the Board, whereupon the departing Director is paid an amount equal to the capital gain, if any, that he or she would have enjoyed on ownership of actual Partnership units.

10. Director Indemnification

All directors and officers of the General Partner benefit from several levels of indemnification, which operate independently of one another: (i) the General Partner’s bylaws provide that the company shall indemnify its directors and officers, as well as their heirs and legal representatives, to the extent permitted by the *Canada Business Corporations Act*; (ii) each director is party to an Indemnification Agreement with the General Partner; (iii) the Partnership’s Directors and Officers Liability Insurance covers directors when they are acting in the capacity of directors of the Partnership; and (iv) the Partnership Agreement (Sections 8.8, 8.9) provides for indemnification of directors for all losses, claims, damages, and liabilities suffered as long as the directors acted in good faith with a view to the best interests of the Partnership. These indemnities and the Director and Officer Liability Insurance operate to protect directors individually and collectively and hence, to allow the Partnership to attract and retain skilled and experienced directors.

11. Miscellaneous Compensation Items

It has been noted that Independent Directors residing outside of Canada must, by operation of Canadian law, contribute toward the Canada Pension Plan, despite the fact that they will never benefit therefrom (unlike Canadian-resident Directors). The fees beneficially received by U.S. Directors are therefore slightly smaller than those received by their Canadian-resident counterparts. For this reason, the fees paid to U.S. resident Directors are grossed up by that (small) amount necessary to ensure that U.S. resident Directors obtain the same general net benefit from their fees as do Canadian-resident Directors.

12. Board Compensation Reviews

The Governance Committee reviews the Independent Directors’ compensation annually, taking into account such matters as time commitment, responsibility and compensation provided by independently vetted, comparable industry benchmarks. The Committee makes recommendations to the Board for consideration when it believes changes in compensation are warranted.