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Stuart Lee
President

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CONFERENCE CALL PARTICIPANTS

Bob Hastings
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Matthew Akman
Macquarie Capital Markets

Michael McGowan
BMO Capital Markets

Robert Kwan
RBC Capital Markets

PRESENTATION

Operator

All participants thank you for standing by, and welcome to the EPCOR Power L.P. 2009 Second Quarter Review 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 provided at that time for you to queue up for questions. If you have any difficulty hearing the conference call please press star followed by zero for any operator assistance. I'd like to remind everyone that this call is being recorded on Wednesday, July 29, 2009 at 1:00 p.m. Eastern Time.

I'll now turn the conference 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. Yesterday EPCOR Power L.P. released its second quarter 2009 results. The news release from the second quarter results and the presentation slides for this conference call are posted on the Partnership's website at epcorpwrp.ca. This conference call is also being webcast from our website. You can access the webcast presentation by clicking on the Webcast link from the Home Page.

Joining me on the conference call is Stuart Lee, President, and the newly appointed Chief Financial Officer, Tony Scozzafava. Stuart will provide a summary of the second quarter and provide an update of the corporate priorities for 2009. Tony will provide a financial summary of the second quarter results and review the Partnership's outlook.

Before we begin let me direct your attention to the cautionary statement regarding forward-looking information on Slide 2. Certain information in this presentation and in oral answers to questions contains forward-looking information. Actual results could differ materially from conclusions, forecasts, or projections in the forward-looking information, and certain material factors or assumptions 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, forecast 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 11 and 12 of this presentation, and on Pages 27 and 28 of the Partnership's Second Quarter 2009 Management's Discussion and Analysis filed on SEDAR.

With that out of the way I will turn the call over to Stuart.

Stuart Lee, President

Thanks, Randy. I'll begin my comments starting on Slide 3 with the review of two significant events that took place in the quarter.

In June, EPCOR Power L.P. announced a repositioning of the Partnership to achieve long-term distribution sustainability. This included a 30 percent reduction in annual cash distribution to \$1.76 per unit. This revised distribution level is expected to be sustainable for at least the next five years based on existing cash flows. The Partnership targets a long-term payout ratio of 75 percent of cash provided by operating activities less maintenance capex.

Retaining cash in the distribution reduction and a new Premium DRIP will be used to permanently finance internal growth projects and the Morris facility that was acquired in late 2008. Overall, the repositioning will provide more flexible financing options to fund future growth.

In July, following the closing of Capital Power's IPO, EPCOR Utilities Inc.'s 30.6 percent ownership in the Partnership and associated Management and Operation Agreements was transferred to Capital Power. The reorganization also involved various changes to the directors and officers, including Brian Vaasjo, the previous president, moving up to assume the Chairman of the Board position. Accordingly I was appointed president from my prior CFO position, and Tony Scozzafava was appointed as the new CFO.

In the M&O Agreement, compensation for the manager was adjusted to better align an incentive to increase cash available for distribution to unit holders. As part of the reorganization a one-year Standstill Agreement was put in place where Capital Power is not able to increase its 30.6 percent ownership in the Partnership without the consent of the Partnership's independent directors.

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

Stuart Lee, President

Thanks, Stuart. I'll recap the second quarter starting from Slide 4.

Operating cash flows in the second quarter were generally in line with our expectation. The Curtis Palmer, Williams Lake, Morris facility generated higher operating margins on a year-over-year basis. Our Ontario plants reported lower contribution due to lower natural gas prices, lower power demand and lower revenues from waste heat. The two North Carolina plants showed poor financial performance due to lower dispatch from decreased power demand and increased competition from natural gas plants. Overall the cash distribution payout in the second quarter was 78 percent.

In May, we completed the re-powering of the North Island facility. The project was completed slightly ahead of schedule and under budget. The new LM6000 gas turbine improves operating efficiency and is expected to increase operating margin. Last month, we announced plans for a similar re-powering project at the Oxnard facility that is scheduled for completion in May 2010 at a cost of \$20 million U.S.

Turning to Slide 5, this slide summarizes the financial highlights for the second quarter of 2009. The Partnership generated revenues excluding fair value changes of approximately \$139 million in the second quarter, down 4.9 percent from the same period a year ago. Operating margin before fair value changes was \$52.5 million in the second quarter. This was up 13 percent to the same period a year ago primarily due to higher PPA pricing at Curtis Palmer and higher contributions from the Williams Lake facility.

In the second quarter, the Partnership reported net income from continuing operations of \$42.3 million compared to \$105 million a year ago. The decrease in net income was primarily driven by fair value changes on natural gas supply and foreign exchange contract of \$73.5 million. Cash provided by operating activities of continued operation was \$33.1 million, down 16 percent from the prior year, which I will discuss in a moment. Declared cash distributions of \$23.7 million in the second quarter was down 30 percent from the prior year due to a recent reduction in distribution. Capital expenditures of \$25.9 million is up 159 percent from the prior year due to \$18 million from growth capex initiatives.

Moving to Slide 6, this slide demonstrates the continuity of cash provided from operating activities of continued operations from the second quarter of 2008 to the second

quarter of 2009. Excluding working capital changes of \$15.1 million, cash provided by operating activities from continuing operations was up 30 percent from the prior year. The increases in cash flows were due to higher operating margins of \$11.1 million from the Curtis Palmer, Williams Lake, and Morris facilities. The increases were partially offset by \$3.6 million lower operating margin at the North Carolina facility due to higher maintenance costs for planned repairs, a generator failure at the Roxboro facility and lower dispatch. The Ontario plant also reported \$2.5 million in lower operating margins from lower gas prices, lower power demand in Ontario and lower waste heat revenues.

Now turning to Slide 7, this slide covers the Partnership's 2009 operating cash flow outlook compared to 2008. The positive impacts on cash flow include a full year of cash flows from the Morris facility, re-powering of the North Island facility completed in May, which is expected to increase plant efficiency and cash flow. An 18 percent step-up in the pricing for the Curtis Palmer PPA, and the non-recurrence of a milestone maintenance payment to Fredrickson facility. Negative impacts from cash flows would include lower settlements on foreign exchange contracts, lower natural gas prices resulting in lower enhancement revenue and lower waste heat availability in 2009 compared to 2008.

Previously, we provided guidance on our expectation that there would be higher emission credit cost at the Roxboro and Southport facilities. Due to lower prices for credits and lower dispatch our original forecast for higher emission credit cost has been reduced substantially. However, lower dispatch at the North Carolina facilities will negatively impact operating margins.

Due to the weak forestry industry, we previously expected higher wood waste costs for the Williams Lake plant with operating margins expected to be \$2 million lower in 2009 compared to 2008. Currently, the Williams Lake plant is offline until Q4. In the meantime we continue receiving fixed energy payments from the PPA counterparty and continue to increase our wood waste inventory from lower cost suppliers. Once the plant is back online, we expect 2009 operating margins will be flat on a year-over-year basis. Overall, 2009 cash flow from operations is expected to be roughly in line with that of 2008.

I will now turn the call back over to Stuart.

Stuart Lee, President

Thanks, Tony. To conclude I'll provide an update on our 2009 corporate priorities starting on Slide 8.

We have completed the first two priorities relating to the re-powering of the North Island facility and implementing alternative fuel source strategies for our two biomass facilities at Calstock and Williams Lake.

The next priority relates to our Ontario PPA. We continue to meet with the Ontario Electricity Financial Corporation, or OEFC, and expect to have an agreement in principle and formal agreements in place later this year. The short run avoided cost or SRAC will be implemented in August, and therefore negotiations with the U.S. Navy have not commenced.

For the last priority on this slide, the Partnership continues to evaluate potential development opportunities. We're looking at an internal development project on Queen Charlotte Islands and potential construction of additional facilities at our Manchief facility in Colorado. These key projects would produce 220 megawatts at an estimated cost of up to \$300 million.

Turning to Slide 9, construction on enhancements to the Roxboro and Southport facilities continue. We expect to invest an additional \$53 million U.S. through the remainder of 2009 to complete the project on budget.

Last month, we provided an update on our investment in Primary Energy Recycling Holdings. Bids from the sales process did not provide adequate value. Therefore PERH is undergoing a re-capitalization and has suspended the dividend on its common shares. The Partnership's net book value in PERH at the end of the second quarter is approximately \$15 million, which is less than one percent of total assets. We continue to work with PERC in optimizing the business and refinancing the credit facility maturing next month.

The last priority is finalizing negotiations on the Roxboro and Southport PPAs that expire at the end of the year. Due to lower dispatch from a decrease in power demand and low natural gas prices, this may negatively impact negotiations for the renewal of PPAs, which expire at the end of this year.

I will now turn the call back to Randy.

Randy Mah, Senior Manager, Investor Relations

Okay. Thanks, Stuart. Catherine, we're ready to start the question-and-answer session.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question, and you're using the speakerphone please lift the handset before making your selection. If you have a question please press star, one on your telephone keypad. You may cancel your question by pressing the pound sign. Please press star, one at this time if you have a question. There will be a brief pause while participants register. We thank you for your patience.

The first question is from Bob Hastings from Canaccord Capital. Please go ahead.

Bob Hastings, Canaccord Adams

Thank you, and congratulations on the new position.

Stuart Lee, President

Thanks Bob.

Bob Hastings, Canaccord Adams

The, just in terms of Oxnard and the re-powering that you're looking at there, gas prices are extremely low these days. Does that influence anything? Is there a break-even gas price which you kind of look at to achieve your hurdle rate?

Stuart Lee, President

So on the Oxnard facility, a lot of the economics are in respect of maintenance and capital spending going forward as opposed to economics specifically related to efficiency on the unit itself. And while it may be some upside with respect to the efficiency, you know again depending on where natural gas prices end up at in your forecast on natural gas prices, the primary economics are really driven by maintenance, lower maintenance and lower capex going forward.

Bob Hastings, Canaccord Adams

Okay.

Stuart Lee, President

We still believe that project to be economic despite low inherent natural gas prices currently and certainly forward on natural gas prices.

Bob Hastings, Canaccord Adams

Okay. Did you want to share your sort of hurdle rate that you need to do that?

Stuart Lee, President

The hurdle rate with respect to that project?

Bob Hastings, Canaccord Adams

Yes.

Stuart Lee, President

If you're looking at the hurdle rates that we've had on our internal project, historically we've looked at IRRs that at a minimum on those internal projects unlevered in the 12 to 15 percent range. And some of the projects certainly have the ability to provide better returns than that.

Bob Hastings, Canaccord Adams

Okay. When I see that your cash flow changes on a quarterly basis and I look at the Morris facility is \$3.5 million contribution would it be fair to take that \$3.5 million and look at sort of the implied return on your \$70 something million dollar investment? And I realize that was U.S. dollar investment.

Stuart Lee, President

It is, but again as we I think pointed out on the acquisition there is a step down with respect to the PPA, particularly in 2013. But in the short term I think that's a fair representation of looking at it.

Bob Hastings, Canaccord Adams

Okay. Thanks. And just one last question, I'm sure you won't be able to answer this one, but in terms of the contractual negotiations that are coming up later this year and lower power prices in the market, you have gone and spent a fair amount of money. Assuming a renegotiation of a reasonable rate is that in jeopardy in here? Or is some of that sort of locked away as well?

Stuart Lee, President

Clearly the current market events across North America, but particularly in that region had an impact on power prices and may impact the negotiations with respect to the PPA. But fundamentally we have a view that the long-term demand supply in that market supports that efficiency upgrade as well as the environmental requirement. We do believe that capital expenditure is certainly supported by both economically and environmentally.

Bob Hastings, Canaccord Adams

And your guidance hasn't changed for this year. It seems a little bit up in fact. But that would when you look out to next year and your longer term guidance you haven't made really any changes for those contracts.

Stuart Lee, President

We haven't at this point. Again it'll be subject to the successful discussion on renewal of those PPAs. And I just think as we get into the fourth quarter as we typically do we'll provide an updated guidance for 2010.

Bob Hastings, Canaccord Adams

Okay. Thank you.

Stuart Lee, President

Thanks.

Operator

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

Tony Courtright, Scotia Capital

Thank you. Just following on discussions regarding your North Carolina plants that are undergoing upgrades. You referenced lower power demand and low gas prices. What is your generally break-even gas price economics to make those plants viable?

Stuart Lee, President

So Tony, we wouldn't necessarily look at it on a break-even gas price economic. I think it's a combination of looking at both dispatch and then there's discussions around both capacity and energy payments. And that's how we've focused our commercial view of the economics on those facilities.

Tony Courtright, Scotia Capital

But you're suggesting right now that low gas prices are making them less than fully economic in their current form.

Stuart Lee, President

Correct.

Tony Courtright, Scotia Capital

So what I'm trying to do is ascertain what sensitivity there is to gas prices. At what point have you jeopardized your investment?

Stuart Lee, President

I don't have a specific target price with respect to gas prices on that, Tony.

Tony Courtright, Scotia Capital

But prevailing prices are jeopardizing, and are partially jeopardizing your investment?

Stuart Lee, President

I think they're making the negotiations certainly more challenging.

Tony Courtright, Scotia Capital

Which suggests that a prevailing price of current spot would not be, wouldn't really permit you to recover your full investment?

Stuart Lee, President

I think a \$4.00, you know if you're looking at sub \$4.00 gas prices it'll be a challenge for a lot of different facilities. But again I think it'd be a pretty pessimistic view of natural gas prices to suggest that \$4.00 would be the long-term outlook.

Tony Courtright, Scotia Capital

Notwithstanding Shell gas development.

Stuart Lee, President

Not even withstanding Shell gas development. I don't know that there's too many analysts out there that are suggesting that the long-term gas price is going to be sub \$4.00.

Tony Courtright, Scotia Capital

So without getting into detail though in terms of, would you have alternative strategies to renegotiate maybe if you don't get what you want because of prolonged depression in gas prices that you might do a short contract and hope for, to be able to re-contract longer? Or I mean how flexible are you? I mean do you need to do it all with one counterparty? Or can you have multiple counterparties for the output at some of these plants?

Stuart Lee, President

There are several different options that we have pursued and continue to pursue. Not only with Progress who is the existing counterparty but multiple other counterparties that have requirements for power. Obviously as you know the Southport facility has a steam off-taker. It takes a lot of steam from that facility to provide economic returns. There is adjacency to the PJM market. You can

look at short-term capacity on that type of market. So there are a number of different options that we continue to look at and continue to pursue.

Tony Courtright, Scotia Capital

And just flipping for one moment to the opportunity that might exist out in the Queen Charlotte. Is that so remote that in terms of disconnected from the rest of the grid that there would be an opportunity to pursue that regardless of a recent decision by the BCUC with respect to BC Hydro's long-term acquisition plan?

Stuart Lee, President

That's our view, and you know as you're probably aware a lot of the power for that area because it is remote is provided by diesel generators, which certainly have adverse environmental impact. And so we're looking at opportunities to provide alternative sources of power to that island.

Tony Courtright, Scotia Capital

Great. Thank you very much.

Stuart Lee, President

Thanks, Tony.

Operator

Thank you. The next question is from Matthew Akman with Macquarie Capital Markets. Please go ahead.

Matthew Akman, Macquarie Capital Markets

Thanks very much. Most of my questions have been asked, but I just wanted to try and get at Roxboro and Southport in a little bit of a different way. I guess I was under the understanding that most of the contract would've been more in the nature of a capacity payment than an energy payment. And so hopefully dispatched in the short-term wouldn't have affected the economics too much. But is that an incorrect assumption based on what you're saying now about the contract negotiation, Stuart?

Stuart Lee, President

So the negotiations are really around a contract that would include both capacity and energy, which is consistent with the way the contract is structured today. So certainly while capacity covers some of the base cost, dispatch plays an important role in the economics for those facilities, ensuring that you have dispatch at adequate levels. And you know, that's a real driver behind part of the capital cost we're putting into it is to ensure that we're driving down the cost associated with the fuel for that facility to ensure that our dispatch actually is up in the longer term.

Matthew Akman, Macquarie Capital Markets

Is there something going on in the negotiation? I mean without getting into details, that has fundamentally changed beyond the economics of the region just because I wouldn't have thought that, that you guys would enter into a negotiation for EPCOR Power L.P., which is obviously a steady cash flow vehicle, on a major capital investment where there wasn't at least some assurance of a meaningful return on capital employed that would at least cover the cash flow that you generally promised to unit holders. It just strikes me that's not, that's not like you guys to enter into that kind of a negotiation in EPCOR Power L.P., which is obviously not a merchant vehicle. So what has changed I guess, in general in terms of the contract negotiation, the tone of it?

Stuart Lee, President

Well I think not only the contract negotiations, but obviously options around other potential counterparties and the market in general. Clearly current market economics will have an impact on any sorts of negotiations, and it is certainly having an impact on discussions currently with Progress. But you know having said that, looking at the long-term fundamentals in that marketplace I've always believed that that investment is prudent.

Matthew Akman, Macquarie Capital Markets

And there's no chance you guys will stop spending money there pending finalization of an attractive or at least economically viable contract?

Stuart Lee, President

Well we continue to proceed with the project and believe, as I mentioned before, that long term that spending is prudent.

Matthew Akman, Macquarie Capital Markets

Okay. Thank you very much.

Operator

Thank you. The next question is from Michael McGowan from BMO Capital Markets. Please go ahead.

Michael McGowan, BMO Capital Markets

Good afternoon. I have a quick question on Castleton. You reached an agreement to sell that facility a while back and it still seems to be generating cash losses. Has there been a delay in the sale?

Stuart Lee, President

No. The sale closed at the end of June and I think we ended up with proceeds of about \$10 million U.S. associated with that sale.

Michael McGowan, BMO Capital Markets

Okay, and just again a question about your facilities in North Carolina. Can you talk a little bit about biomass availability in the region and your contracting strategy there?

Stuart Lee, President

For biomass availability, it has remained actually relatively good unlike some of the issues I think we've seen in Canada. And we have had no issues with respect to contracting biomass supply for facilities. For the most part, those supply agreements are with numerous different counterparties and are generally shorter term in nature.

Michael McGowan, BMO Capital Markets

I guess you're looking at using a number of short-term contracts in order to meet your fuel supply needs there?

Stuart Lee, President

Correct.

Michael McGowan, BMO Capital Markets

Can you talk about the duration of those contracts at all?

Stuart Lee, President

They're typically I think one to two years.

Michael McGowan, BMO Capital Markets

Okay. And who generally are the suppliers?

Stuart Lee, President

I'd have to go back and look at all the different suppliers on that, Michael. I know they are the big, what you'd expect, some of the big forestry and paper and pulp suppliers in the region in North Carolina and South Carolina.

Michael McGowan, BMO Capital Markets

Okay. And just I guess a final question. Can you, can you give us a little bit of an update on the Morris bankruptcy proceeding and how things are progressing there?

Stuart Lee, President

So no real changes from the last quarter. I think the only thing that we've seen again externally has been the continued view that they're expected to emerge from bankruptcy towards the end of the year. From a plant perspective, what we do see is a fairly significant capital spend that they are planning on making on the facility in 2010. They continue on with that. The plant continues to run pretty near capacity. They have shut down other ethylene production facilities in the Gulf Coast region, which has actually strengthened, I think, the position of

the Morris facility. So all indications from our side are I think positive.

Michael McGowan, BMO Capital Markets

Great. Thank you. Those are my questions.

Stuart Lee, President

Thanks.

Operator

Thank you. Once again please press star, one for any questions or comments. The next question is from Robert Kwan from RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Thank you. Maybe just coming back to Morris, has there been anything from Equistar with respect to them wanting to try to alter the contract?

Stuart Lee, President

You know they've pushed back on certain areas of the contract, but our view is that we wouldn't look at making any changes to change the overall economics.

Robert Kwan, RBC Capital Markets

Okay. And given that they're in a bankruptcy proceeding is that really kind of your choice? Or can you talk about how integral your plant is to their facility, i.e. you know could they run without you?

Stuart Lee, President

I think the simple answer is, we don't think they could. Certainly all the steam for the facility is provided by us. They would have to buy package boilers, bring in package boilers. All of the, if they were to look at getting external for instance power to the facility, all of the bussing ducts come through us. So all the power, even if you were to bring it in, has to come through our, our facility. So you'd have to put in all new transmission

facilities to do that, and so it becomes very un-economic to try and, to try I think to work around the existing contract. But again that's our view.

Robert Kwan, RBC Capital Markets

I guess to come back to the Carolina's here. In terms of the scope of your capex and what you've spent do you feel you're past the point of no return, in terms of kind of the modifications you've made and is it really kind of finishing off what you're half way through? Or if there was a big adverse turn, could you really just kind of shut down the spending?

Stuart Lee, President

Well I think as I mentioned before we still believe that you know the spending on the facility given the economics long term for the regions is prudent spending. So I don't think at this point in time we suggest there would be any changes to our plan.

Robert Kwan, RBC Capital Markets

Okay. And I guess just with the low gas price do you have any concern that your counterparty or the counterparties you're talking to, may go in a different direction with respect to a permanent solution, i.e. them either constructing a natural gas plant?

Stuart Lee, President

You know those options certainly always exist for any of the counterparties that we deal with out of the utilities side. Looking at changing fuel sources over the long term. But, but for me to sit here and speculate on what their plans might be is somewhat difficult. And again if you look at the capital requirements in putting in new facilities, it's pretty significant versus having an existing iron in the ground. And the changes that we're making with respect to using more wood waste and the environmental benefits from that, with relatively low cost tire-derived fuel. If you look at a reasonable price of natural gas going forward, I still believe that those facilities would be competitive.

Robert Kwan, RBC Capital Markets

Okay. So is it fair to say that by virtue of you pushing forward on the capex, do you view your customers doing a permanent solution on the gas side as being a very low probability?

Stuart Lee, President

Again they may take a view in response, but as far as replacing all of the supply coming out of solid fuel facilities like coal or like our facility, I think the chances of that are low.

Robert Kwan, RBC Capital Markets

I'm just looking at it as an alternative to kind of your facility rather than some sort of wholesale change at the utility level.

Stuart Lee, President

Right. And again I think it would be depending on your view of natural gas prices.

Robert Kwan, RBC Capital Markets

Like does it make some sense just to slow down the spending at this point until you have the contract in place?

Stuart Lee, President

Again I think what we try to reiterate is the fact that we still believe that those facilities will provide good economic returns over the long term.

Robert Kwan, RBC Capital Markets

Right. No, I understand that if you're looking at the long term. I guess the short term is very challenged right now and the spending cycle on what you expect there is relatively short.

Stuart Lee, President

Yes.

Robert Kwan, RBC Capital Markets

So could you not just wait until you get some certainty around the contract and you know based on how much you have left it shouldn't take very long to kind of complete the work and to drive on.

Stuart Lee, President

Yes. I mean I think the construction comes in different stages as far as delivery of major components and construction, but like I say at this point in time there's no changes in our expectations around schedule and budget on the facilities.

Robert Kwan, RBC Capital Markets

Okay, great. Thanks, Stuart.

Operator

Thank you. We have no more questions at this time. I would like to return the meeting over to Mr. Mah.

Randy Mah, Senior Manager, Investor Relations

Okay. Thank you. If there are no more questions we'll conclude our call. Thanks again for your interest in EPCOR Power L.P.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.
