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Forest Carbon Offsets:

A Buyers Perspective

Alberta Forest Growth Association
October 21, 2010

Andrew Hall
Capital Power Corporation

Content Summary

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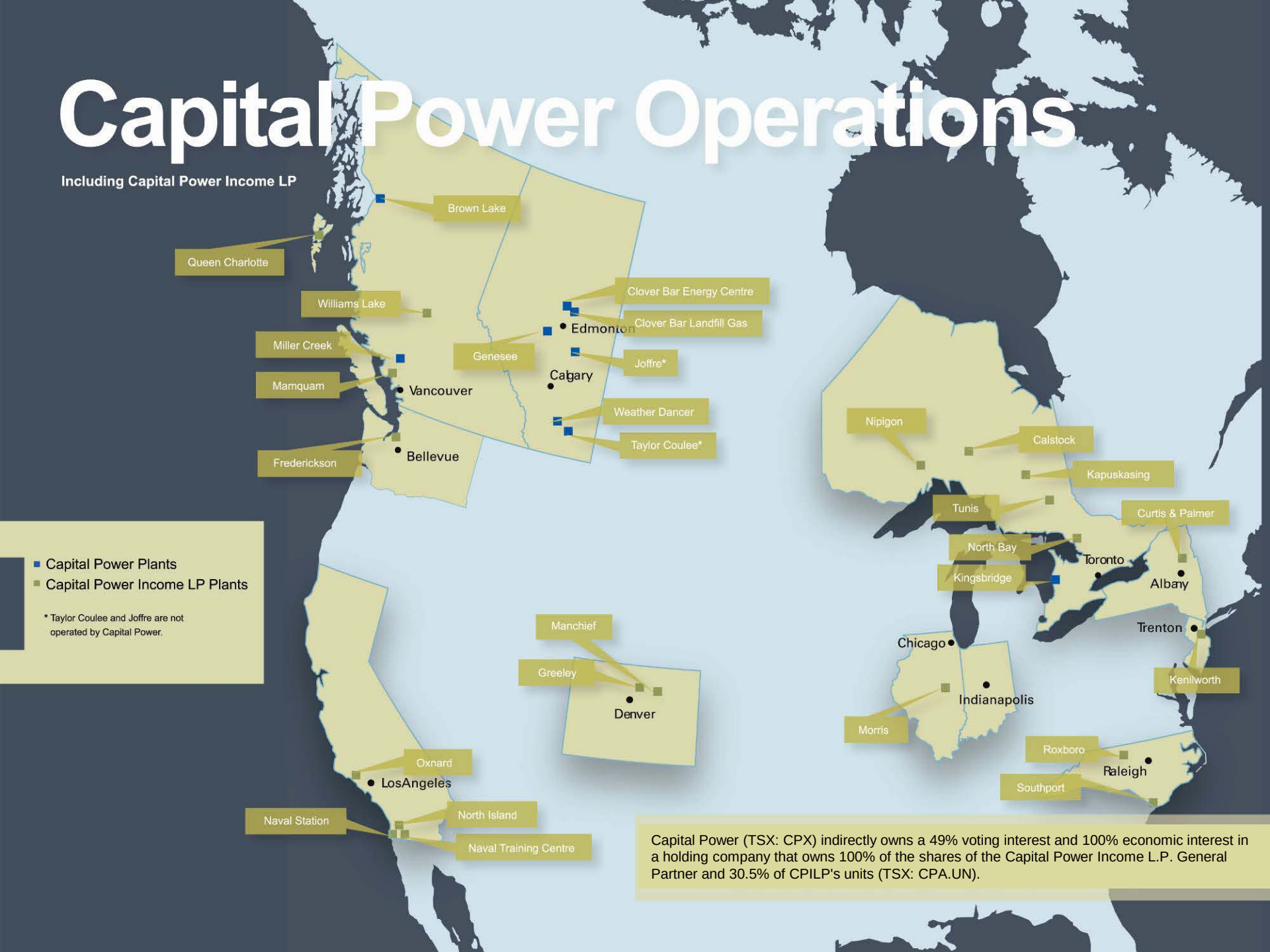
1. Introduction to Capital Power
2. Why Forestry Offsets
3. Buying Forestry Offsets
4. Project Characteristics
5. Conclusions

Capital Power Operations

Including Capital Power Income LP



Capital Power (TSX: CPX) indirectly owns a 49% voting interest and 100% economic interest in a holding company that owns 100% of the shares of the Capital Power Income L.P. General Partner and 30.5% of CPILP's units (TSX: CPA.UN).

Introduction to Capital Power

- Headquartered in Edmonton, Alberta
- Capital Power is a growth-oriented North American power producer, building on more than a century of innovation and reliable performance.
- Capital Power has interests in 31 facilities in Canada and the U.S. totaling approximately 3,300 MW of generation capacity.
- BBB credit rating from Standard & Poor
- More than $20 million invested in over seven million tonnes of verified offsets since 2007, with the total volume of offsets purchased and/or under contract exceeding 10 million tonnes
- Significant portfolio of GHG offsets developed or under contract from sources such as landfill gas, low tillage, forestry, N2O abatement and acid gas injection

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Why Forest Based Carbon Offsets?

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Tenure:	Forest offset projects aligns with the long-term life span and accompanying liability of Capital Power's assets
Supply	Vast tracts of forest in Canada provide a ready supply and the ability to select project characteristics and geographies
Cost	Given the supply potential, forestry offsets will be a cost effective source of domestic, compliance quality offsets
Co-Benefits	Numerous additional attributes; hydrology, bio-diversity, recreation, sustainable harvest opportunities

A Key Source of Supply

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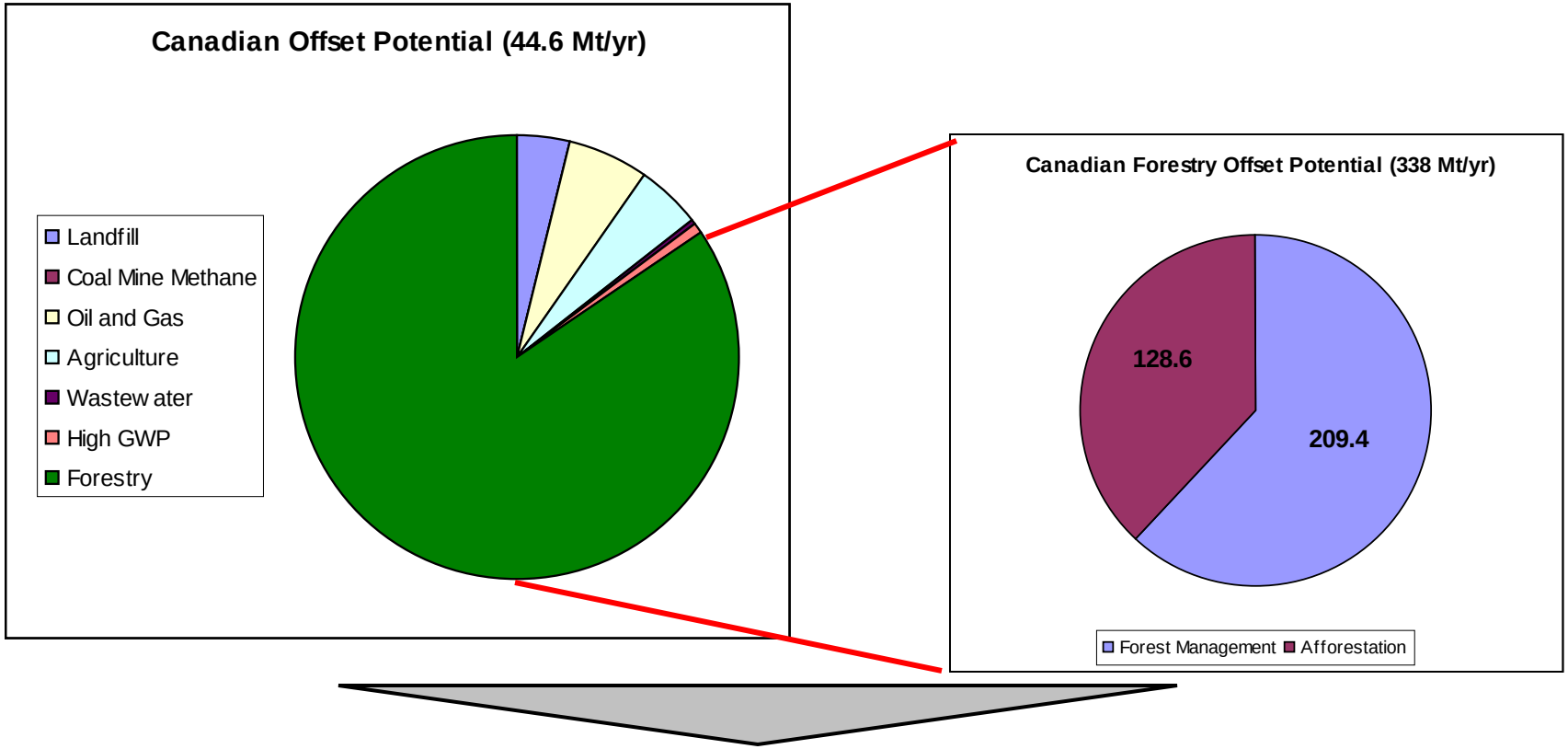
- Recent report put bio-sequestration (forestry and ag) at 88% of the Canadian offset market supply



"Canada will have to rely almost exclusively on agricultural soil and forestry for domestic offset credits"

(New Carbon Finance. "North America Research Note." April 2009)

Graphs adapted from New Carbon Finance. "North America Research Note." April 2009.

Alberta Supply…

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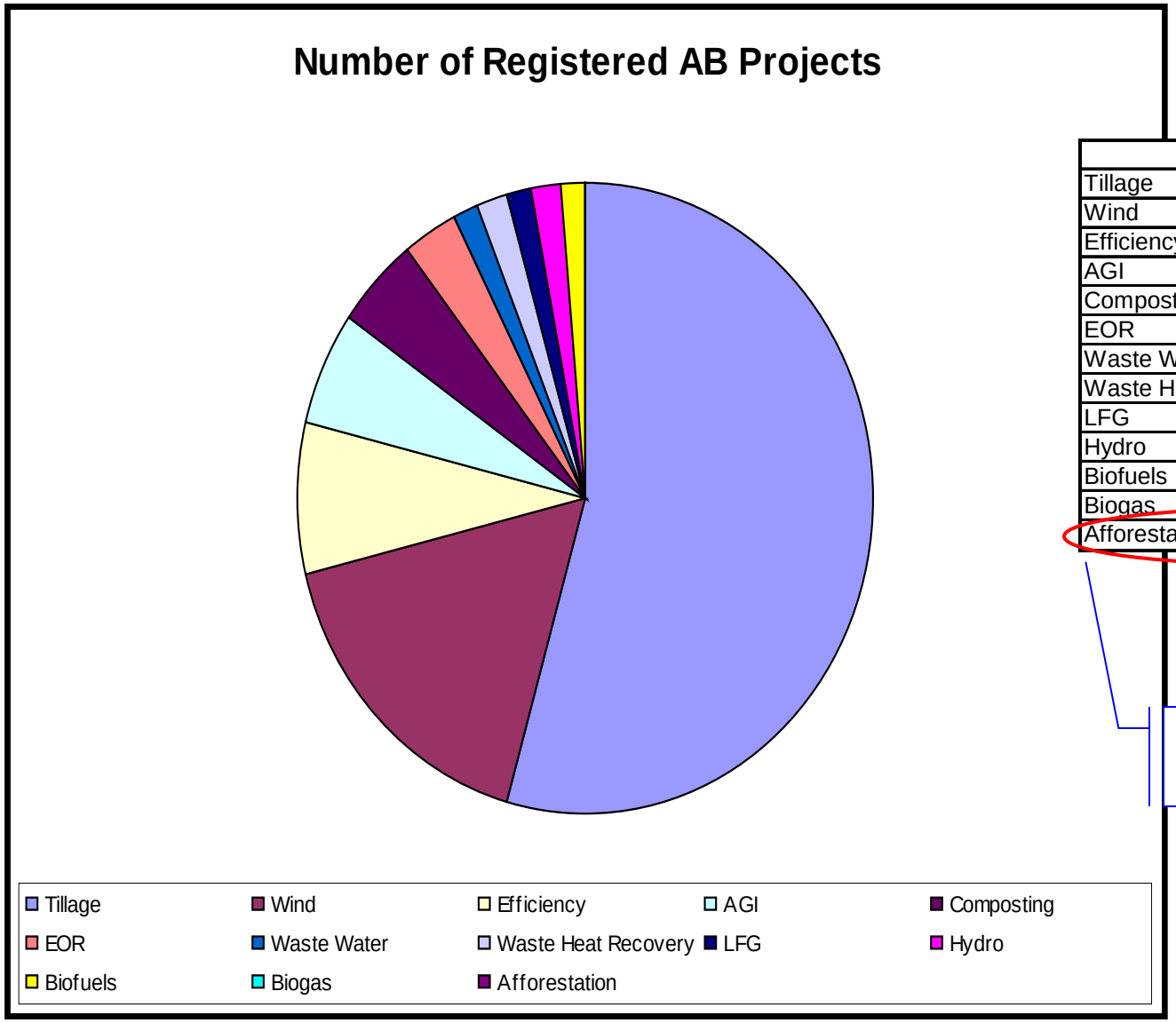

	# Projects
Tillage	36
Wind	11
Efficiency	5
AGI	4
Composting	3
EOR	2
Waste Water	1
Waste Heat Recov	1
LFG	1
Hydro	1
Biofuels	1
Biogas	0
Afforestation	0

Key constraints are ownership and lack of forestry protocols

US Supply

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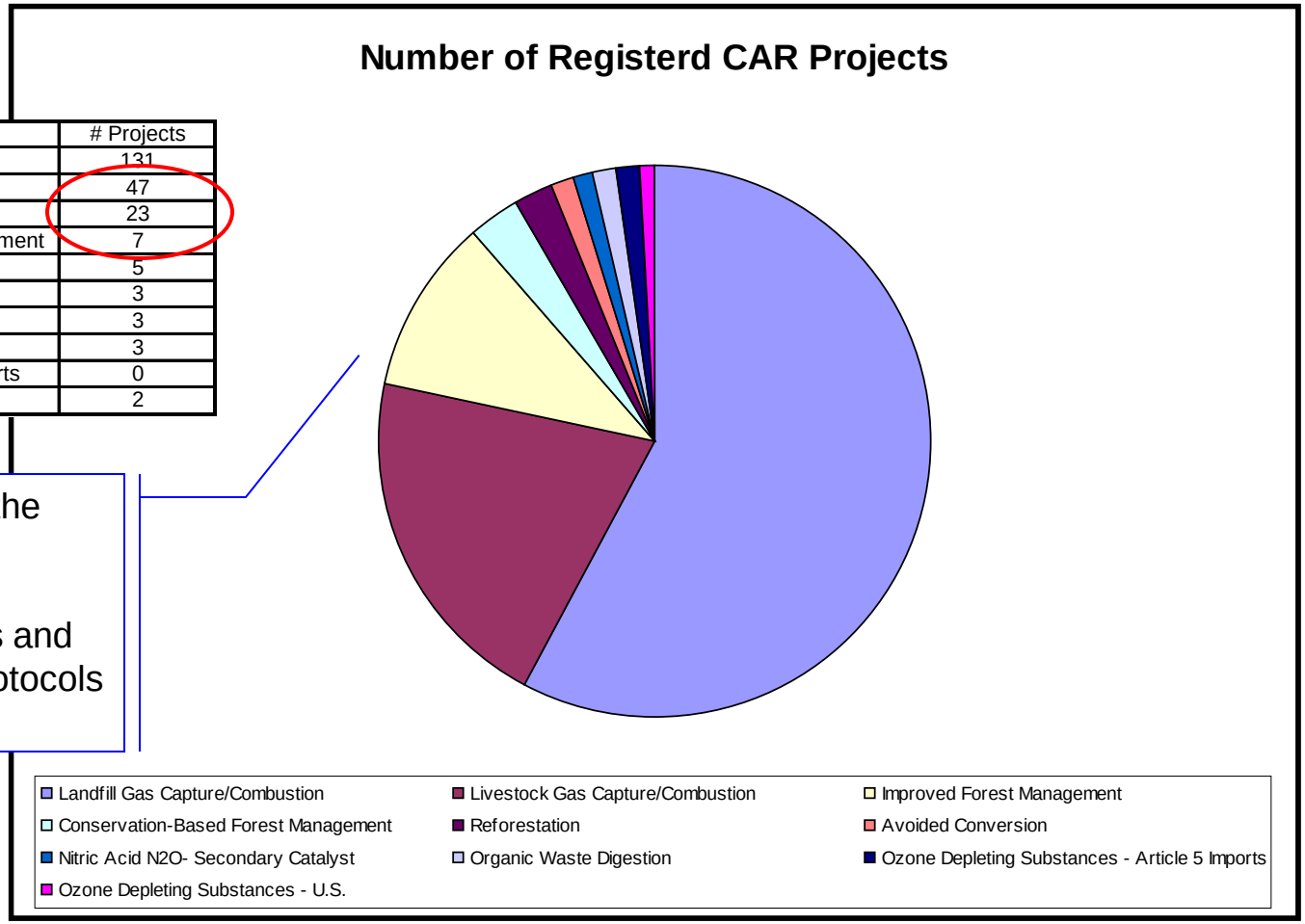
	# Projects
Landfill Gas Capture/Combustion	131
Livestock Gas Capture/Combustion	47
Improved Forest Management	23
Conservation-Based Forest Management	7
Reforestation	5
Avoided Conversion	3
Nitric Acid N2O- Secondary Catalyst	3
Organic Waste Digestion	3
Ozone Depleting Substances - Imports	0
Ozone Depleting Substances - U.S.	2

150 forestry projects in the pipeline or issuing!!

Fewer ownership issues and clear, implementable protocols



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Experience Purchasing Forest Offsets

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- Focused on both Canada and the US
- Three transactions to date – all in the US
    - Conservation forestry
    - Improved forest management
- CAR Protocol
- Extensive due diligence process
    - prescriptive nature of the CAR protocol simplifies the process somewhat
- Typically good counterparty or project proponent
- Deals are frequently brokered rather than being bilateral
- Supply of forestry projects rapidly increase

Pricing in CAR Markets

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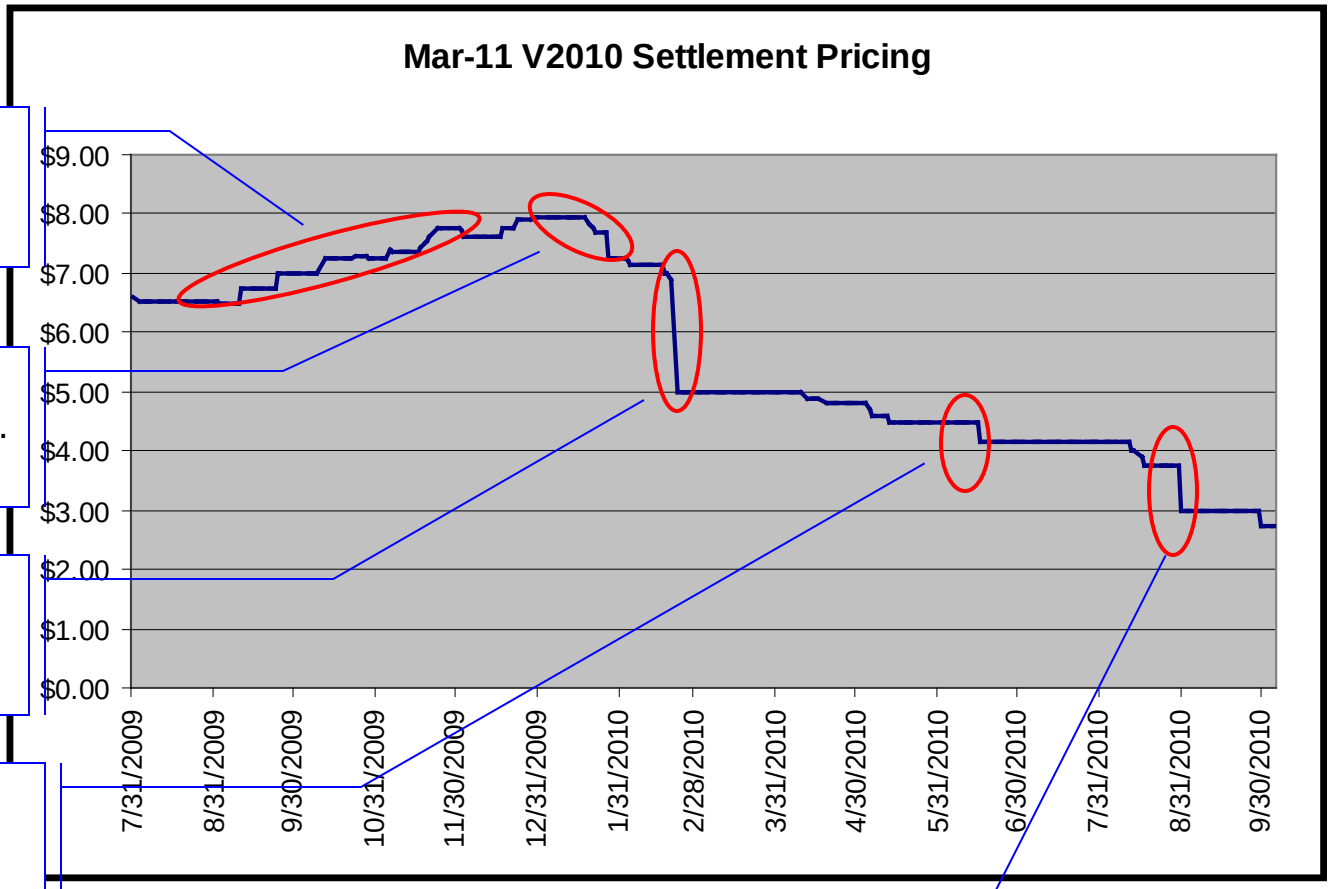

Announcements that K&L will not include economy wide C&T

Scott Brown wins Kennedy senate seat. Against C&T

Announcements that K&L will not include economy wide C&T

Obama pushes climate change legislation but no mention of C&T

Reid announces that climate legislation will not be tabled in 2010

Pricing in CAR Markets Continued

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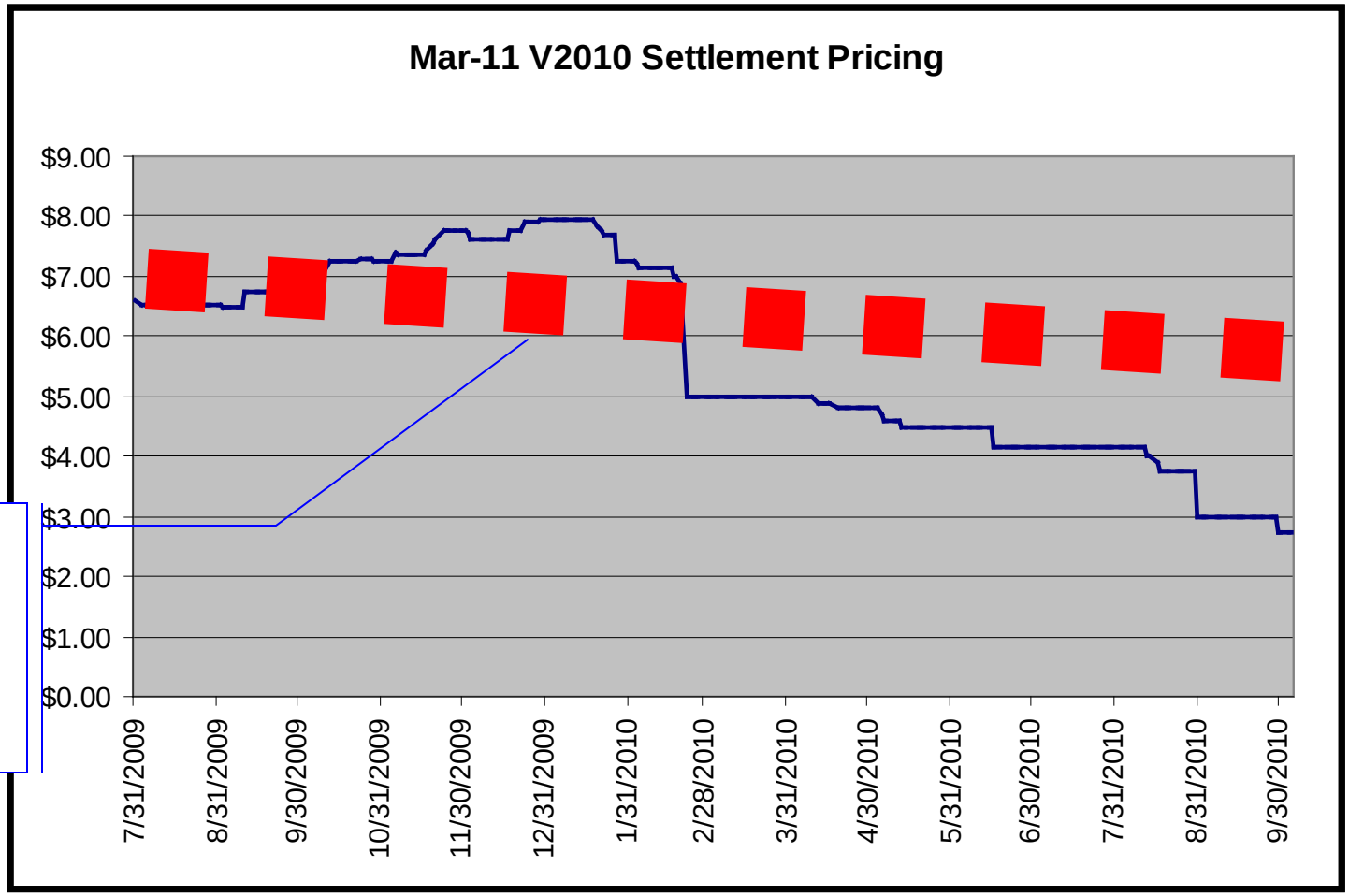
Pricing for forestry offsets has operated in a tighter band and has not been as volatile as other project types



Pricing in Alberta

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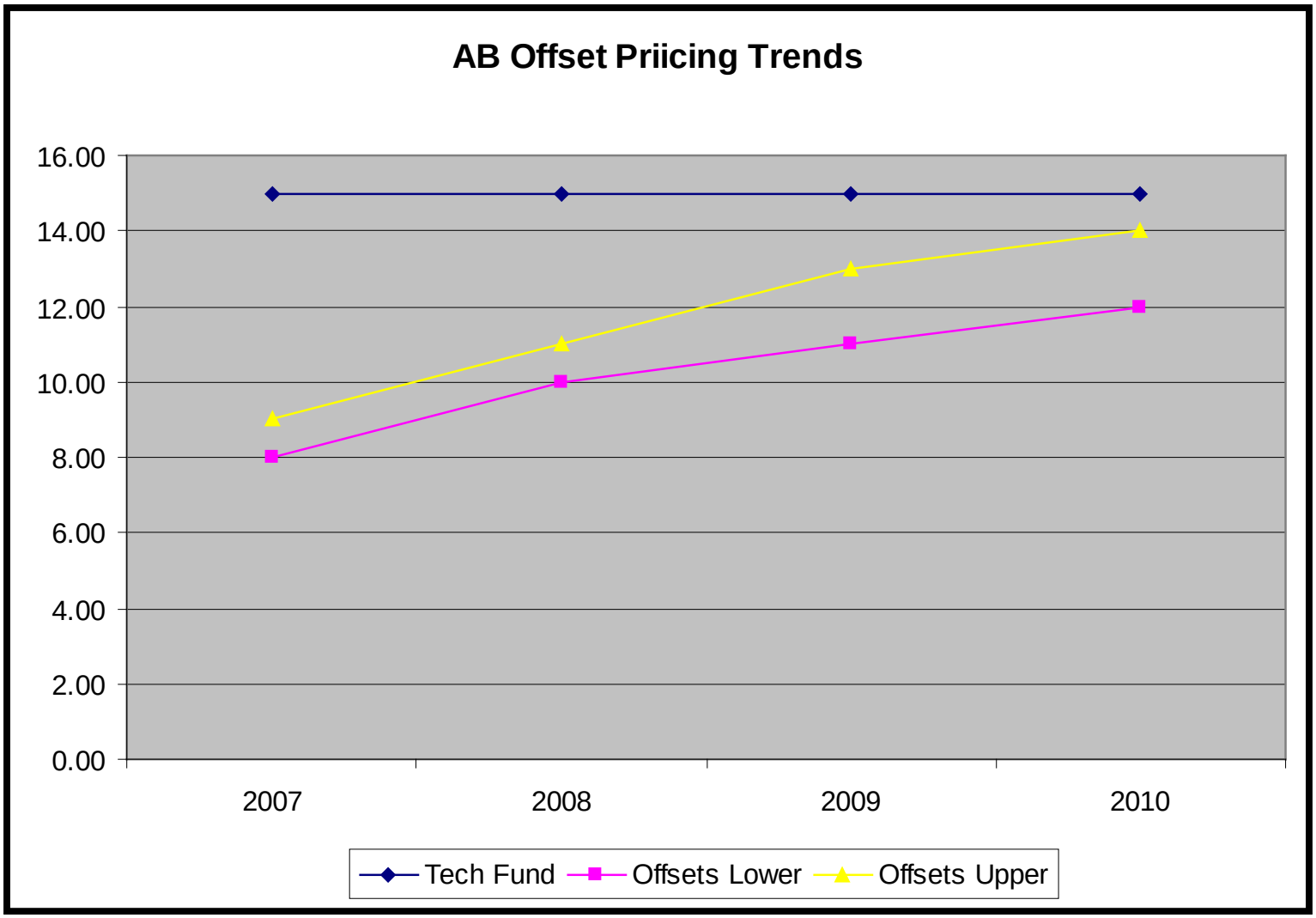

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Creating Desirable Forest Offsets

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Price	Reflect the realities of supply and demand, as well as inherent risks from regulation, technology etc
Protocol	Preference toward an established protocol and standard – VCS, CAR, ISO, AB, WCI, CDM etc
Flexibility	For pre-compliance and regional systems there needs to be flexibility to adapt for federal compliance
Project Type	Improved forest management, avoided conversion, afforestation
Counter-Party	Credit worthy counter-parties simplifies process but able to work with a range of counter parties
Volume	Minimum annual volume of 50k/t/year but preference given to larger project sizes – cost efficiencies

Creating a Forest Carbon Credit

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Concept ual → **Planning** → **Imple ment-ation** → **Late-Stage**

Requirements include:
- Initial project concept/feasibility assessment
- Project due diligence
- Protocol scoping or new protocol development

Requirements include:
- Risk analysis
- Technical advisory
- Project design document development
- Project validation
- Project registration

Requirements include:
- GHG assertion
- Project monitoring reports
- Project due diligence
- Auditing

Requirements include:
- Credit issuance
- Credit transfer or submission for compliance

Capable of engaging across to the project development spectrum

Policy Challenges

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Ownership

- Clearly remains a fundamental issue
- Largely preventing the broad development of the forestry offsets in Canada
- Limited number of projects on private lands
- In the US this is less of an issue as large tracts of forested land are privately owned
- Need clear, consistent and uniform application of ownership – not case by case

Regulatory Challenges

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Permanence

- Project type much less attractive if temporary credits issued (e.g. CDM protocols)
- Large buffer pools reduce the economics of projects
- Need to find a balance to allow for conservative baselines while remaining economically viable

Liability Period

- Unlike many other project types the offsets could disappear (i.e. fire, disease, pestilence etc)
- Longer liability periods decrease the attractiveness of forestry projects
- Again there is a need to find a balance between conservativeness, economic viability and environmental integrity

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Moving Forestry Offsets Forward

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Bridging the gap

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- **Internal emissions reduction obligations**
- **Regulatory and market expertise**
- **Policy engagement and lobby**
- **Project design and implementation track record**
- **Long-term liability obligation**

Forest Industry

- **Internal emissions reduction obligations**
- **Forest management expertise**
- **Lease ownership**
- **Quantification and measurement expertise**
- **Ability to create a long-term asset stream**

Given aligned interests and complementary expertise there is a significant opportunity to create partnerships between industry and the forestry sector

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Q&A

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