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

- **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

- 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”


Alberta Supply…

Number of Registered AB Projects

<table>
<thead>
<tr>
<th>Project Type</th>
<th># Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tillage</td>
<td>36</td>
</tr>
<tr>
<td>Wind</td>
<td>11</td>
</tr>
<tr>
<td>Efficiency</td>
<td>5</td>
</tr>
<tr>
<td>AGI</td>
<td>4</td>
</tr>
<tr>
<td>Composting</td>
<td>3</td>
</tr>
<tr>
<td>EOR</td>
<td>2</td>
</tr>
<tr>
<td>Waste Water</td>
<td>1</td>
</tr>
<tr>
<td>Waste Heat Recovery</td>
<td>1</td>
</tr>
<tr>
<td>LFG</td>
<td>1</td>
</tr>
<tr>
<td>Hydro</td>
<td>1</td>
</tr>
<tr>
<td>Biofuels</td>
<td>1</td>
</tr>
<tr>
<td>Biogas</td>
<td>0</td>
</tr>
<tr>
<td>Afforestation</td>
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</tbody>
</table>

Key constraints are ownership and lack of forestry protocols.
### Number of Registered CAR Projects

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

150 forestry projects in the pipeline or issuing!!

Fewer ownership issues and clear, implementable protocols

![Pie Chart](chart.png)
Content Summary

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Experience Purchasing Forest Offsets

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

AB Offset Pricing Trends

2007 2008 2009 2010

Tech Fund
Offsets Lower
Offsets Upper
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Creating Desirable Forest Offsets

- **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

Conceptual

Planning

Implementation

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 the project development spectrum
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

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

Bridging the gap

Capital Power Corp
- 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
Q&A

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