Capital Power
Q3 2024 Results Conference Call
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Avik Dey
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Sandra Haskins
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Participants:
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Robert Hope
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Mark Jarvi
CIBC

Patrick Kenny
National Bank Financial

Benjamin Pham
BMO Capital Markets

John Mould
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Operator
Good day. And thank you for standing by. Welcome to the third Quarter 2024 Capital Power Analyst Conference Call.

(Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Roy Arthur, Vice President of Investor Relations.

Please go ahead.

Roy Arthur
Good morning. And thank you for joining us to review Capital Power's third quarter 2024 results which we released earlier today.

Our third quarter report and the presentation for this conference call are available on our website.

During today's call, our President and CEO, Avik Dey, will offer an update on our business by strategic focus area.

Following that, Sandra Haskins will present a review of the quarter-end financials for the company.

Avik will then wrap up with his closing remarks, after which we will open the floor to questions from analysts in our interactive Q&A session.

Before we start, I would like to remind everyone that certain statements about the future events made on the call are forward-looking in nature and are based on certain assumptions and analysis made by the company.

Actual results could differ materially from the company's expectations due to various risks and uncertainties associated with our business.

Please refer to the cautionary statement on forward-looking information on Slide 3 of our regulatory filings available on SEDAR+.

In today's discussion, we will be referring to various non-GAAP financial measures and ratios also noted on Slide 3.

These measures are not defined financial measures according to GAAP and do not have standardized meanings prescribed by GAAP and therefore, are unlikely to be comparable to similar measures used by other enterprises.

These measures are provided to complement GAAP measures which are in the analysis of the company's results from management's perspective.

Reconciliations of non-GAAP financial measures to the nearest GAAP measures can be found in our 2023 Integrated Annual Report.

Before we begin our presentation, I would like to acknowledge that Capital Power's head office in Edmonton is located within the traditional and contemporary home of many Indigenous Peoples of the Treaty 6 regions and the Métis Nation of Alberta Region 4.

We acknowledge the diverse Indigenous communities that are in these areas of which presence continues to enrich the community and our lives as we learn more about the indigenous history of the land in which we live and work.

With that, I will turn it over to Avik for his remarks.

Avik Dey
Thanks, Roy, good morning everyone.

During the third quarter of 2024, we made significant strides across our three strategic areas of focus, as we continue our journey of Powering Change by Changing PowerTM.

In this quarter, we delivered a record 11TWh of reliable and affordable power across our strategically positioned fleet of assets.

While the increase in generation was largely driven by the acquisition of new assets at La Paloma and Harquahala, it would still be a record quarter for generation if the assets were in our portfolio in Q3 2023.

I will provide more context later in the presentation, but this increase in demand reinforces our conviction that natural gas, thermal generation will continue to play a key role in the power grid for the foreseeable future.

In addition to generating more megawatts, our portfolio's diversification continues to increase with U.S. assets contributing 53% of Q3 2024 EBITDA. The newly acquired assets along with our legacy U.S. generating facilities are now providing upside in our portfolio during a period when Alberta pool prices are depressed, demonstrating the value of our diversification strategy.

We also continued to invest in our assets and have completed just over 60% of the scheduled outage days budgeted for 2024 and are on track to meet our guidance range of $180 million to $200 million of sustaining CapEx.

From a build perspective, we have continued to advance 10 growth projects across our portfolio that will result in a combined 1.1 gigawatts of incremental capacity. Notably, the Genesee Repower project has reached a critical milestone.

We have started commissioning the repower units.

We are proud to announce a 3-year agreement with four First Nations, which provides an opportunity to acquire a combined total of 25% of Halkirk 2 Wind.

As part of our commitment to reconciliation, the agreement provides an equitable profit-sharing model that supports a pathway for future equity ownership that can support these Nations with sustainable income throughout the lifetime of the project's operations.

On the data center front, as many of you will have seen, we have two projects in the AESO connection queue for a total of 1.5GW of load at the Genesee site.

While our discussions have not yet given rise to an announcement, our confidence level in playing a leadership role providing power for the build-out of data centers in the U.S. and Canada is rising.

I will conclude my remarks with some perspectives on why before handing it over to Sandra. Key markets in the U.S. continue to be a core focus for strategic flexible generation growth because of the strong fundamentals. Allow me to briefly touch on this and then zoom in on our business.

Total U.S. combined cycle generation has grown from approximately 1,200 TWh to 1,500 TWh from 2018 to 2023, implying a CAGR of 4%, while total power generation has been much more modest at 0.5% CAGR.

The growth in nat gas power generation with limited new capacity being added has driven up capacity factors at existing facilities.

Looking forward, significant incremental capacity build-out is not expected while demand continues to grow. This translates into rising capacity factors at existing facilities in the years to come.

We have seen the same trend in our own portfolio, but in a more dramatic fashion.

In 2024, year-to-date, our U.S. thermal and nat gas assets had a capacity factor of 53%. This is up from 31% in 2021.

While the increase does not all translate directly into higher cash flow generation for contracted assets in the corresponding time period, it provides material upside for recontracting knee assets and enhances future value of those same assets.

For assets with merchant upside like La Paloma and MCV, higher capacity factors provide benefit from energy exposure.

Both of these facilities recorded capacity factors above the average this quarter and boosted our U.S. EBITDA contribution to the contribution of the total portfolio.

These broad-based and strong fundamentals increase our confidence in recontracting all our U.S. flexible generation assets in the medium to long term. Currently, the weighted average contract life of our U.S. assets is about five to seven years.

However, we are actively engaged in negotiation with respect to amending and extending these agreements.

This dynamic stands in contrast to the typical timeline for contract renegotiation.

Ordinarily, we would negotiate contract extensions with 18 to 24 months prior to contract expiry. There's been a clear shift in that timeline.

As a result, we anticipate the negotiations to result in terms that more accurately reflect the value of these facilities. Even without the benefit of recontracting, the contribution from our U.S. assets continues to rise in the overall portfolio.

From a generation perspective, U.S. assets represented 54% of the record 11 TWh we generated this quarter. EBITDA contribution from the U.S. has risen to a similar level of 53% for Q3 2024, up from 40% in the same period last year. The foundation of our business continues to be our sound contractual underpinning.

However, cash flow growth is coming into focus through recontracting and expansion, as it becomes clear that natural gas-fired generation will play an essential role in reliable and affordable grids across North America for longer than many had anticipated.

While the longer term is exciting, near term, we remain focused on growth projects underway.

I will now briefly touch on this, starting with our flexible generation portfolio. Currently, we are building 6 flexible generation projects. Genesee Repower, plus our five projects in Ontario for a total of approximately 850 MW of incremental capacity. These projects are slated to achieve in-service dates in late 2024 to 2026.

The bulk of this incremental capacity is the Genesee Repower project, where, as noted earlier, we are in the process of commissioning Unit 1 for combined cycle operations. This unit has now dispatched megawatts as part of commissioning and is approaching COD. Unit 2 has begun commissioning and is on track for combined cycle commercial, and we are reaffirming our existing CapEx estimates of $1.55 billion to $1.65 billion, for the Genesee Repower project.

The Battery Energy Storage Solutions at York and Goreway, mobilized and commenced construction during the third quarter.

At this point in time, there is no further update to our CapEx estimate of $600 million for the Ontario BESS Projects and the East Windsor expansion.

Lastly, our upgrade projects at Goreway and York are proceeding on time and favorable relative to budget.

We have completed one out of three of the outages for the Goreway uprate and expect to have approximately 26 MW of incremental capacity at the facility online by the end of the year.

Moving to renewables.

Our development portfolio, we are advancing four different projects with approximately 300 MW of capacity and commercial operation dates ranging from late 2024 and into 2027. This consists of three solar projects with a total of 180 MW of capacity, located in North Carolina. These assets are contracted with a weighted average life of 15 years.

Additionally, we have one wind project, Halkirk 2, which is approaching completion by the end of this year in Alberta.

As discussed at the beginning of the call we are proud of our partnership agreement with Maskwacis First Nations at Halkirk 2.

It is one example of our ability to constructively engage with stakeholders that distinguishes us from many other operators. Legally formalizing this agreement was the culmination of long-term relationship building informed by a deep understanding of the goals of the counterparties at the table.

I will conclude my business update by highlighting our ability to create balanced energy solutions with a focus on data centers.

As I previously mentioned, we have two projects in the AESO connection queue for a total of 1.5 GW of load.

We felt this was a logical time to initiate a filing for data center load to be co-located at the Genesee site.

While we are not yet in a position to provide a specific update, we believe we are well positioned to play a leadership role in this rapidly growing market. Here are some quick perspectives as to why.

We have an existing fleet of flexible generation in Canada and the U.S. with total capacity of 7.8 GW across 14 sites with a combined 18,000 acres of developable land.

At Genesee, we have approximately 13,000 acres of land alone and 1.8 GW of existing reliable generation capacity with significant expansion potential.

Our land positions are near major population centers and can access fiber.

We have a dedicated in-house operational team with engineering, HSS&E and supply chain experts.

We pride ourselves on our constructive stakeholder and government relationships engagement in both U.S. and Canada.

Lastly, we have a thoughtful and creative approach to commercial discussions and creating comprehensive solutions, which is supported by our investment-grade credit rating. This combination means we can provide a superior value proposition, speed to market with confidence. This is what positions us to meet the unique needs of a growing market with demand at a scale not ever seen before.

As we continue our journey, we will provide more updates on our progress.

With that, I will hand it over to Sandra to provide financial highlights for the quarter.

Sandra Haskins
Thank you, Avik.

I will now review the financial highlights for the third quarter of 2024. Capital Power delivered a strong quarter of financial and operational performance.

While financial results were modestly lower year-over-year due to lower EBITDA contributions from the Alberta segment, the U.S. contribution largely offset this.

As Avik mentioned, this quarter, our U.S. assets contributed 53% of EBITDA to the total Q3 total. This was a record quarterly contribution for our U.S. business, which continues to be a focus for future growth.

For the quarter, adjusted EBITDA of $401 million was down approximately $13 million period-over-period due to lower generation and lower power prices captured in our Alberta commercial portfolio and full recognition of the off-coal compensation from the province of Alberta at the end of 2023.

Offsetting factors included lower emissions costs from reduced emissions intensity at Genesee, which is now fully off coal and currently commissioning combined cycle on Units one and two and increased contributions from newly acquired U.S. assets.

Finally, our U.S. trading results were favorable due to increased activity and higher realized gains from our power environmental trading portfolio.

AFFO for the quarter was $315 million, up $19 million from Q3 2023, primarily driven by lower income tax expense. Higher tax deductions related to the

Genesee repowering, offsetting factors include higher finance expense and sustaining capital. The alternate directions of EBITDA and AFFO variance period-over-period are driven primarily by tax implications.

Overall, the quarter demonstrates progress relative to our strategic initiative with benefits realized from dedication to operational excellence, growth and disciplined capital allocation.

For the nine months ending September 2024, adjusted EBITDA was $139 million lower year-over-year due to the same factors impacting Q3 results. AFFO for the nine months ending September 2024 was $22 million lower than the corresponding period in 2023, driven by lower adjusted EBITDA, higher finance expense and higher sustaining CapEx from our recent acquisitions and larger outage scope this year. This was partially offset by decreased income tax expense from operations and higher tax deductions related to certain capital projects including repowering.

To show the changing profile of value in our portfolio, we have provided a simplified breakdown of our quarterly adjusted EBITDA group by region, Alberta, U.S. and the rest of Canada. Q3 2024 saw a 72% increase in the contribution of EBITDA from the U.S., which was driven by the addition of Frederickson 1 at the end of 2023 and La Paloma and Harquahala in the first quarter of 2024.

This increase in the U.S. adjusted EBITDA, combined with a 36% lower contribution from Alberta reduced the relative contribution from Canada overall as compared with last year.

As discussed, the lower contribution from Alberta was driven by lower prices and lower generation from our Genesee units while we completed the repowering project.

Q3 2024 was slightly higher relative to Q3 2023, for the rest of Canada indicating the stability of the contribution from these assets with a slight increase coming from higher dispatch given the high importance of these assets in the grids where they operate. This graph provides a visual of the benefits being realized through our diversification of our asset base, which helped mute Alberta generation and pool price impacts. This has been an especially important factor in 2024 as we advance the Genesee Repower project towards combined cycle operations.

I'll conclude my remarks by reviewing our 9-month performance relative to our revised 2024 guidance.

Sustaining CapEx was $128 million in the first nine months of 2024 and is tracking in line with the guidance range of $180 million to $200 million for 2024.

Our guidance presentation in January 2024 provided financial guidance for 2024 AFFO in the range of $770 million to $870 million. And in Q2, we provided revised adjusted EBITDA guidance range of $1,310 million to $1,410 million.

For the nine months ended September 2024, adjusted EBITDA is just slightly above $1 billion and AFFO is $635 million, and both are tracking in line with the guidance ranges provided in July and January, respectively.

Based on the company's results for the last nine months of 2024 and forecast for the balance of the year, we are reaffirming our revised guidance that we provided in the second quarter.

Overall, we remain pleased with the financial performance of the business during a pivotal year, where we have achieved some significant milestones that have positioned us from a financial perspective as a larger, lower risk, more diverse and more competitive.

With that, I will turn it back over to Avik for his concluding remarks.

Avik Dey
Thank you, Sandra.

2024 has been a transformative year for our company with significant strides on multiple fronts, delivering record generation and executing on our strategy.

As we look to close out the rest of the year, we will be providing our budget and outlook presentation in January of 2025, similar to the timing of our 2024 call this will be virtual.

For our traditional Investor Day, our intention is to have this in December of 2025.

We will provide more details once the specific date and location have been decided.

I would like to conclude this call by reiterating that we remain steadfast in our focus to deliver reliable, affordable and clean power.

With that, I'll now turn the call back over to Roy.

Roy Arthur
Thanks, Avik. Operator, we are now ready to take questions.

Operator
(Operator Instructions)

And our first question will be coming from Maurice Choy of RBC Capital Markets.

Maurice Choy
Thank you and good morning, everyone. If you could just start with, Avik, you prepared remarks, you mentioned that your confidence level related to data center opportunities in the U.S. and in Canada is rising.

Can you elaborate a little bit about where you are on these negotiations? Do the potential customers have offers in hand from you already? Or -- and what are the top obstacles or top obstacle to overcome from here on in?

Avik Dey
Thank you, Maurice, for the question. We are not in a position to make a comment on any contractual arrangements related to data centers.

But as we mentioned, and we've been consistent in our communication to the Street, we continue to advocate for Alberta being an excellent location for data centers, in particular, with our announcement around putting forward the interconnect in at Genesee in Alberta, we've seen a significant -- in Alberta as a data center location, as I have stated in previous quarters, the focus for hyperscalers has been on the U.S. market.

But as reliability and speed to market have increasingly become more important in the calculus for where to locate these hyper data centers.

Alberta has become more prominent in that conversation. And so we have increased our level of confidence in being able to provide options for data centers here in Alberta.

In terms of obstacles, the obstacles continue to be interconnects providing viable balanced solutions that recognize the need for reliability and affordability in the markets that we're in and then ensuring that you've got the appropriate access to transmission and distribution for that load. Whether it's accessing existing grids or going behind the fence.

So I think the most important point is our confidence level in Alberta has increased.

We continue to be active in a number of dialogues on the U.S. as well but we're in a position now that we are seeing real interest in Alberta, and we're looking forward to continuing to advance that, which is why we've proceeded on our own path for site preparation at Genesee.

Maurice Choy
Maybe just a quick follow-up to that. Can you comment about the -- your view of the opportunity set, say, six months ago versus today? Like has that opportunity set changed at all? Has the players gotten broader? Just a little bit of color on that.

Avik Dey
I think six months ago, we started ramping up our own data center efforts a little over -- well over a year ago. and those conversations with hyperscalers and data center providers were primarily around their existing locations and existing customer bases in key U.S. markets. Whether it be WAC or PJM or MISO. Those are three of the most active markets for data centers in the U.S.

As deals have gotten announced in the U.S., particularly around nuclear, as reliability and affordability issues have become more prominent in the U.S., the speed to market has risen as the primary challenge and determinant of where this load will go. And so as we were activating on those conversations in the U.S. last year, we were starting to advocate for Alberta as a viable location.

So relative to six months ago to today, yes, we're having different conversations than we were last summer around data centers.

We are in active conversations with large players, whether it be hyperscalers directly or major data center providers who are now looking to this market for places to place hyper data centers or larger data centers.

So I think it's really a function of demand and the shifting criteria for where to co-locate these plants.

Maurice Choy
Understood. And if I could finish off with the related funding question, about how you plan to fund some of these data center-related growth.

Is First Nations agreement, your main approach to selling down mature renewable assets or are there other avenues that you're looking at? And if so, if you could just comment on the -- in terms of appetite and valuation for these renewable assets in general.

Sandra Haskins
So Maurice, you're referring to the contract on Halkirk 2?

Maurice Choy
That is right. Hopefully, it's not one and done, but whether or not that's an avenue to more to come.

Sandra Haskins
Yes. No. It is an avenue potentially for more to come.

On the Halkirk two project, we do have the agreement with the offtaker that we would look for indigenous participation on that particular project. And so what we've announced is exactly the opportunity to have them participate in Halkirk 2.

We continue to look for other opportunities across our fleet and our development pipeline to continue building those relationships and having more opportunities to do similar type transactions in the future.

Maurice Choy
But for your existing renewable assets, not the new ones, are those still ones that you consider for monetization?

Sandra Haskins
Yes. We would consider monetization absolutely. It's something we've been clear on for a period of time with respect to that being an opportunity for us to raise capital to deploy in other projects, realizing that there is an opportunity and an appetite out there for people to enter into those projects.

So that is something we would continue to explore. And as we've said in the past, it's not just the opportunity to do that, but to time it so that you have the proceeds to redeploy into the next opportunity.

So continue to have that in our tool kit of potential avenues of funding.

Operator
Our next question will come from Robert Hope of Scotiabank.

Robert Hope
I want to dive a little bit deeper into the data center opportunity in Alberta. We did see an announcement earlier this week for 90 MW. And it does seem like that will take power from the grid.

Looking forward, how do you think the data center opportunity evolves in Alberta? Will there be an element of utilizing some of the excess supply that's in the market?

Or at what point do you think that the data centers will have to come with their own new generating capacity?

Avik Dey
Thanks, Rob. I think to echo the comments of Minister Nate Glubish as he and Minister Neudorf and the Premier have been advocating heavily for the industry and to bring data centers into the province of Alberta, the focus on hyperscalers and data centers is to bring their own load to the market.

I think from our perspective, as we look at the market being oversupplied by 2 GW, we think there's an opportunity to bring some of that load and grid connected but within an eye towards what we've been advocating all along, these balanced energy solutions that recognize the need for growing load and increase reliability in the market.

So it's one of the reasons why we're so keen and excited about the Genesee generating station is that we believe we can meet the needs of the market as well as introduce new demand, given our size and scale there, the size of the plant and also the 13,000-acre footprint that we have.

So the answer is it's going to need to be in all of the above.

But given our existing capacity in transmission and distribution in the province, point one; point 2, our existing excess capacity. And then thirdly, the support of the government to bring this industry to the province.

I think we're uniquely positioned relative to other jurisdictions in North America to bring this capacity and bring it in a timely fashion ahead of other locations.

Robert Hope
And then maybe moving South to the border. You did note in your prepared

remarks that there could be a willingness for your off-takers to enhance and extend their existing contracts right now. Where are we in terms of these negotiations? Could we see something in 2025? As well as could this be paired with kind of further enhancements or expansions of the facilities?

Avik Dey
So answering the last question first. We continue to see a number of opportunities to either uprate or expand on our existing footprint on U.S. generation capacity.

We are not in a position to comment on potential contracting opportunities.

But as I indicated in the prepared remarks, we are getting approached about potential recontracting opportunities and they're happening well in advance of the typical timeframe that we would historically engage.

So I think what you can read from that comment is for those expiries that are beyond 2026, we are being approached about recontracting and recontracting for longer duration.

And as we mentioned in the prepared remarks, the proof in the pudding on this one, is really what we've seen in terms of increasing capacity factors in our U.S. generation assets over the course of the last few years.

So we feel very good about where we are on our existing fleet. And the growing opportunity there.

Operator
Our next question will be coming from Mark Jarvi of CIBC.

Mark Jarvi
So maybe just picking up on the comments about the 1,000 megawatts and then 500 megawatts more if filed with the AESO for data center load.

Can you walk us through how that's been sequenced? Why there are sort of two applications? Was it just from conversations that you could see the demand grow beyond the 1,000? Or is there -- is that across one customer?

How have you seen this evolve in terms of the potential solutions you're bringing to the market?

Avik Dey
I can't comment on the specifics of why. But what I can say is we've taken a holistic view on how we think large capacity could be built out, and it's reflective of what we've heard from the market, and it's reflective of what our view in managing that load growth in Alberta is.

So I would say in response to your question, it's not in response specifically to any one party or any single negotiation but more reflective of what we think we can do and the timing of what we can do optimally in coordination in conjunction with government entities and regulatory approvals to facilitate load coming into the province.

So it's more specific to what we believe we can do than in response to a specific customer.

Mark Jarvi
Okay. And then from the conversations, what are you thinking about the asset mix when you're thinking about, what the right solution of mix is or generation is an emissions profile are customers wanting a blend of renewals and firming gas would people be willing to do sign up for just natural gas-fired supply. Any perspective on that?

Avik Dey
Well I think in response to that question,

the hyperscalers have been increasing crystal clear in terms of their focus on over the (inaudible) and our actions have been consistent with that.

I think as we look at the speed to market issue, that clearly needs to come from flexible generation or natural gas-fired generation as it relates to Alberta.

So when you tie this back to the strategy we laid out at Investor Day earlier this year, we continue to see that opportunity set.

Now the question becomes is, when we execute, a, our first data center deal, will it include any of those components, flexible generation, renewable trading and origination support.

It may remain or not.

At Genesee, for example, the opportunity today in the near term is very focused on natural gas-fired generation.

But as these conversations are growing, I think the opportunity set will be for us to do both.

But I think from a capital allocation perspective, for us, we continue to see the opportunity being in the same ratios as we outlined at Investor Day, in terms of 70%, 20%, 10% coming from flexible generation at, 70%, renewables at 20% and other being low carbon solutions and trading and origination support being at 10%.

So it's a little bit of a high-level answer, but hopefully...

Mark Jarvi
Understood. And then maybe turning to the voluntary departure program you announced. That seems like a decent number of head count at the corporate level.

Is the view that some of those jobs will be picked up in the U.S. Is there a message that maybe you'll be having a bigger U.S. presence just in terms of corporate overhead? And are you thinking at all as the U.S. fleet grows and USD exposure that you change your functional currency or even look at the U.S. listing now?

Avik Dey
Sorry. With regard to the voluntary departure program, as we outlined at Investor Day in April, we have four key priorities for the company, which is expand flexible generation with a focus on the U.S. market. Expand -- grow our renewables portfolio with a focus on U.S. solar, enhanced trading and origination capabilities and these balanced energy solutions.

So within that -- (technical difficulty) Sorry, I got cut off there. Maybe I'll just start again on that, Mark.

On the voluntary departure program, as I mentioned, our focus is more pronged in terms of our strategy, expand flexible generation, grow renewables, enhance trading and origination and really focus on this balanced energy solutions as we just described around renewables. The reorganization is focused on aligning our…(technical difficulty)

Operator
Our next question will be coming from Patrick Kenny of NBF.

Patrick Kenny
Hopefully, you can hear me okay. Maybe just sticking with the Alberta data center opportunity. And given the CCS project was canceled in part due to the inability to lock in the price of carbon long term, Just wondering on the flip side, how you're thinking about mitigating the risk for your hyperscaler customers around a potentially rising

carbon tax? Is that something that you think that they will be willing to accept on a flow-through basis or is it something that you might have to come up with a longer-term solution for?

(technical difficulty)

Operator
Please standby your conference will resume momentarily.

Avik Dey
Pat, it's Avik here. Can you hear me?

Patrick Kenny
Yes. I can hear you.

Avik Dey
Maybe I'll just go back to Mark's question before answering yours. Just on the voluntary departure program. So I won't repeat what I said there. But the focus of the reorganization is very much in aligning the organization with the growth strategy that we outlined at Investor Day.

So it is focused on moving positions towards the U.S. and aligning with where we want to grow the company over the coming years.

So it's really about repositioning the organization in preparation for growth. And in particular, what got us here won't get us to where we want to go.

What got us to the position we're in right now was very much a centralized organization where we expanded the organization and our capacity and EBITDA through a centralized organization. And as we now are expanding and scaling our business, we need to grow our presence in the U.S.

So that's really the background for why we're going through this reorganization.

But on the back end of it, we expect to be very well positioned to expand the business aligned with what we outlined at Investor Day. With regard to CCS in Alberta and carbon tax, I think when we talked about Alberta, with regard to building data center capacity last year. That was one of the major considerations was the overall cost of power when including transmission distribution cost and carbon tax and the relative competitiveness of the price of electricity here relative to other markets.

As speed to market has become an increasing issue and the need to find a combination of behind defense solutions and grid connected solutions for data centers, the relative positioning of Alberta inclusive of those costs are now more attractive to hyperscalers. And I would add, in the context of the hyperscalers looking at nuclear, for example, for long-term clean solutions, the cost of abatement as it relates to CCS is expected to come well within what a new build or a repowered nuclear would look like, and that would be inclusive of the costs around carbon.

So I do think CCS is possible. It's not a core focus today around the speed to market opportunity around Genesee.

But certainly as you look at some of the deals that have been announced in the U.S. particularly around the repower or potential new build in Washington State. CCS plus gas is something that could be very interesting in the future in Alberta.

Patrick Kenny
Okay. And then maybe shifting gears to the REM.

So it looks like you've already submitted comments and expressed your apprehension towards the AESO, looking at contracting strategic reserves. Just wondering if you could distill the impacts that you see to your portfolio or perhaps your outlook for the merchant market in general?

Avik Dey
Yes. Thanks. As we are in the midst of that active engagement on the consultation, I think we take comfort primarily in the announcement that Minister New or made in July with regard to the support of the energy-only market. And as we work through things like the price cap and offer cap and look at everything in context.

I think our position on the medium- to long-term market remains the same, which is today, we're oversupplied.

We are focused on bringing new load into the market.

I think the announcement by the minister in the summer, reaffirming support for the energy-only market, the introduction of the day-ahead market or key market changes that reinforce us being an energy-only market.

So I think our view -- our medium- to long-term view hasn't changed.

It's now our focus is supporting the government through our participation in the technical engagement to get the i's dotted, the t's crossed and the specifics around the policy in place as quickly as possible.

But any one thing in itself we don't think fundamentally shifts the market, but we've got to look at everything in context and make calls and get to the goal line as quickly and efficiently as possible.

And we believe the AESO is focused on that as well.

Operator
Our next question will come from Benjamin Pham of BMO.

Benjamin Pham
I understand at the Alberta power price more specifically on the quarter, maybe the last week of the quarter was you saw some power prices of $5, $6, maybe $2 in some cases.

Can you guys comment on that more holistically, is it not supply-driven market mitigation? And is that an ongoing trend that you expect given the oversupply in the market?

Sandra Haskins
So I think what you will continue to see, Ben, and what we've said in the past is you will see volatility in power prices. And while the incremental supply has driven down prices lower and the addition of wind, in particular, will have a depression on prices. You'll continue to see periods of high volatility that will be driven by weather events and when certain plants are unavailable or renewables aren't performing.

So I think that will expect that going into 2025 is what we've always signaled would be the low end of the market on power prices until we start to see some of that supply being consumed even absent the impact of data centers potentially on that.

But you will see volatility or more volatility in power prices in Alberta as we go forward.

So no unusual to see that sort of price performance.

Benjamin Pham
Okay. And then on the Halkirk two agreement, can you maybe more for me to understand this a bit more a thought process on a 3-year term and use of these deals, have you negotiated the valuation ahead of time?

Sandra Haskins
So the three years gives them the opportunity to due diligence to what the opportunity hit COD and bring them in at that period of time. The timing of that is just advantageous to both parties, to come in.

So the actual contract will be determined once we hit that day, three years -- three years out.

So it's a unique construct that is just because of the particular circumstances for ourselves and our partners on that project.

Benjamin Pham
And can you clarify, is the valuation set ahead of time? Or is that negotiated when the option is potentially exercised?

Sandra Haskins
It will be finalized when it's settled, when it's finalized.

Benjamin Pham
Okay. And maybe just one more to squeeze. And I know there's been a lot of questions on AI, the call session in Alberta. And I'm curious like when you just take a step back and let's say you build out the data center and support all -- what are you trying to achieve strategically in the end of this? Do you expect more EBITDA?

Do you just want more or contracted assets? And how do you think about your greenhouse gas emission targets as reference to that in the MD&A?

Avik Dey
Yes. Thanks for the question. Look, I think at the end of the day, we are a power company. We're a generator.

So what we're trying to do is increase the net present value of each and every one of our assets by increasing our capacity utilization at those assets and increasing the duration under which we can continue producing power.

I think with regards to greenhouse gas emissions, I think one of the key tenets of where we are relative to where we were is we've gone from transitioning the existing electricity supply stack into one where we collectively, and this is North America are expanding energy demand.

And so we believe we have to meet that demand by growing flexible generation, which will increase absolute greenhouse gas emissions.

But we have to continue to look at ways to decarbonize the grids in which we participate.

So as you look at our portfolio, we've got 1.1 GW of new expansion capacity and that's a combination of FlexGen, where we're reducing our greenhouse gases in half by having gone from coal to high-efficient gas, but we're also adding renewables.

We're also adding battery storage projects which collectively reduced greenhouse gases in the markets in which we're in.

So I think that's something that we're evaluating.

I think with us coming off of CCS at Genesee with the cancellation of that project, we're evaluating what our pathway is on decarbonization.

But I think it is fair to say that we expect to increase absolute emissions but remain steadfast in our focus on finding ways to decarbonize our portfolio. as well as be more active players in the markets that we're in to provide lower carbon electricity into those markets.

Operator
And our next question will be coming from John Mould of TD Cowen.

John Mould
Just turning back to the data centers in Alberta. I'd just like to touch on this concept of speed to market and bring your own power.

I guess, Avik, can you provide your perspective on what gas turbine availability looks like and how that plays into the ability for data center proponents to bring their own power? What's the sweet spot here in terms of a timeline for the start -- I don't just see generally not your specific projects.

But for the timeline, we could see for a start of this potential data center build up, they can meet hyperscaler timelines, but is also achievable in terms of potentially seeing more thermal capacity built in Alberta.

Avik Dey
Look, I think what's created the opportunity in Alberta is the speed -- when I say speed to market, to build a data center.

So if you isolate the opportunity to the footprint of the data center itself, the construction period is going to be 24 to 30 months for a data center. The bottleneck overall in the North American market is not that.

It's the substation, the interconnects, transmission and distribution to the extent that's required. And that's really pushing out, I mean just in the interconnect queue on average, you're talking about three years.

And so from the moment of conception today where you're looking out at a potential new build, it's putting you out at 5, six years for newbuild construction.

So your average, so why is that important? The reason why Alberta is important is you can actually go deliver capacity inclusive of building generation, inclusive of getting interconnect in a timeline that's three or four years relative to five or six years plus.

So the role of thermal is really one that will meet short- to medium-term demand to get the ball rolling on the hyper data centers.

So we've seen these big announcements in the space around large renewables, nuclear repowering, that are all extended beyond that.

But the short-term focus on generative AI is getting the capacity built out to actually run and bring these LLMs up to speed.

So that first, whether it's 10 gigawatt or 10 gigawatts for all of these Gen AI LLMs, is to build that capacity as quickly as possible. And so yes, there's an urgency around it. And we believe, and we understand that natural gas is going to play a critical role, not only just because of the build times for the generation.

But because of the utility and necessity to go off of the existing interconnects and the timeframe of doing an expansion or a repower relative to a new build. Does that answer the question, John?

John Mould
Yes. No. That's helpful. And then I'd just like to touch on U.S. M&A briefly. You've talked about ERCOT and PJM potentially being of interest at your Investor Day and you've been active historically in your other core markets.

As you've seen this change in utilization that you covered earlier on your gas assets and broader tailwinds for reliability. How has this changed what you're seeing in U.S. M&A markets for thermal assets just in terms of the scale of opportunities, valuations? And how much are you considering -- like how would you say you're thinking about potential deals versus how you can leverage your existing footprint and land that you have in the U.S. where you could build more capacity?

Avik Dey
I think we look at all of them exactly the same way, which is what are we building or buying for and how do we optimize the dollars per KW of net present value on each and every one of those underlying assets.

So what we are looking at and have always looked at is what's the cost of new entry, what's the new build capacity, cost to get into one of these markets or build new capacity. And then what can we buy and optimize that same capacity for.

What's been interesting over the last -- and as you've seen us deliver over the last decade, we've demonstrated time and time again that we can buy and optimize and create net present value and accretive returns for investors through enhancing and using our operating capabilities to recontract those assets.

On the M&A front, what we've seen in the last year, as you know our public peers in the U.S. have remained focused on not acquiring thermal gas-fired generation.

So what we've seen a marked pickup in is activity by private equity players in this space.

So we saw earlier this year, a private equity firm by an operating platform with their assets in the PJM. That was a large transaction.

We saw today a large announcement between KKR and Energy Capital Partners for a $50 billion partnership focused on generation solutions for data centers.

So that's what we're seeing.

We're seeing more private equity and alternative asset managers come into the space and look.

I think we continue to see an advantage with our operating capabilities to take on single assets or asset packages where our operating capabilities, our trading capabilities and our ability to work with stakeholders, differentiates us.

And so now that we're completing the integration of our acquisitions from last year, Harquahala, La Paloma and Fredrickson, we're turning our eyes towards expanding the fleet and looking at new opportunities.

But I would say we're focused completely around the same types of assets we were focused on before.

We continue to see the opportunity around those assets that we think we can optimize.

So the fact that data centers is a new source of load has not in -- not in a single way, changed how we're underwriting these assets.

It's just that the thesis that we had laid out for ourselves a year ago and what we indicated at the Investor Day that's actually bearing fruit and proving out, which is shown in our results, in particular, on capacity utilization in our U.S. fleet.

Operator
And I would now like to turn the

conference back to Roy for closing remarks.

Roy Arthur
Thank you, everyone. If there are no more questions at this time, we will conclude our call. Thank you for everyone for listening in.

Operator
And this concludes today's conference call. Thank you for participating. You may now disconnect.