

- Minimize exposure to extreme price fluctuations, especially during higher priced peak hour periods. To do this, Capital Power relies on historical load shape data provided by load settlement agents and local distribution companies to anticipate what the aggregate customer electricity consumption will be during peak hours. When consumption varies from historical consumption patterns and from the volume of electricity purchased for any given peak hour period, Capital Power is exposed to prevailing market prices because it must either buy electricity if it is short or sell electricity if it is long. Such exposures can be exacerbated by other events such as unexpected generation plant outages and unusual weather patterns.
- Limit exposure to spot price variability within specified risk limits by entering into various purchase and sale arrangements for periods of varying duration. Due to limited market liquidity and the variability of electricity consumption between peak usage hours and off-peak usage hours, it is not possible to hedge all positions every hour. The Company operates under specific policy limits, such as total commodity risk and stop-loss limits, and generally trades in electricity to reduce the Company's exposure to changes in electricity prices or to match physical or financial obligations.

Political, legislative and regulatory risk

Capital Power is subject to risk associated with changing political conditions and with changes in federal, provincial, state, or local laws and regulations or common law and their interpretation by administrative tribunals or the courts. While it is not possible to predict changes in the legislative and regulatory environment or their impact on the Company's business, income tax status, and operations, there has been an increase in regulatory activity and penalties. Capital Power is also required to maintain numerous licenses, permits and governmental approvals for the operation of its projects and participation in its markets. If Capital Power fails to satisfy the conditions of these instruments, there could be an adverse impact on the effectiveness and cost of those projects or operations. Many of the regulatory approval processes for the development, construction and operation of power generation facilities require stakeholder input. Accordingly, progress in Capital Power's development, construction and operation activities could be impeded by stakeholder intervention. Changes in law and regulatory requirements, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, may also adversely impact the market dynamics for Capital Power, the participation levels of counterparties that Capital Power relies on to support its portfolio optimization strategies and the costs associated with participating in these markets.

Many of Capital Power's operations are subject to extensive environmental laws, regulations and guidelines relating to the generation and transmission of electricity, pollution and protection of the environment, health and safety, air emissions, water usage, wastewater discharges, hazardous material handling and storage, treatment and disposal of waste and other materials, remediation of sites, and land-use responsibility.

These regulations can impose liability for costs to investigate or remediate contamination. Compliance with new regulatory requirements may require Capital Power to incur significant capital expenditures or additional operating expenses, and failure to comply with such regulations could result in fines, penalties or the curtailment of operations. Further, there can be no assurance that compliance with or changes to environmental regulations will not materially adversely impact Capital Power's business, prospects, financial condition, operations or cash flow.

Capital Power's ability to develop new projects is also affected by the availability of transmission and distribution systems. If restrictive transmission price regulation is imposed, the transmission companies may not have sufficient incentive to invest in expansion of transmission infrastructure. Capital Power cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets.