



# **Transcript of Macquarie Power & Infrastructure Income Fund (MPT.UN) First Quarter Results Conference Call May 7, 2008**

## **Participants**

Sarah Borg-Olivier, Investor Relations  
Gregory Smith, President and Chief Executive Officer  
Harry Atterton, Vice President and Chief Financial Officer

## **Presentation**

### **Operator**

Good morning and welcome to the Macquarie Power and Infrastructure Income Fund First Quarter Results Conference Call for May 7th 2008. Your host for today will be Sarah Borg-Olivier. Ms. Borg-Olivier, please go ahead.

### **Sarah Borg-Olivier – Investor Relations**

Thank you, Melanie, and good morning, everyone. Thank you for joining us to discuss MPT's results for the first quarter ended March 31st 2008.

Today's call will be hosted by Gregory Smith, MPT's Chief Executive Officer. Also on the call is Harry Atterton, Chief Financial Officer. Our news release was issued yesterday after market close and is available on our website at [www.macquarie.com/mpt](http://www.macquarie.com/mpt).

I should also note that today's conference call is being webcast live with accompanying slides, and will be archived on our website along with a transcript of the event.

Before we begin, I would like to remind everyone that during the course of this conference call, we may make various forward-looking statements that involve known and unknown risks and uncertainties that may cause actual results to differ materially. For information about such risks and uncertainties, I refer you to the risk factors in the Fund's Annual Information Form, filed on March 21, 2008.

With that, I'll turn the call over to Greg Smith.....



**Gregory Smith – President and Chief Executive Officer**

Thank you, Sarah. Good morning, everyone and thank you for joining us.

I'm pleased to tell you that our portfolio performed strongly during the first quarter of 2008 in line with our expectations.

This demonstrates the stability of essential infrastructure assets throughout the economic cycle. This stability is underpinned by the diversity of MPT's portfolio by asset type, fuel source and geography.

Revenue for the quarter was up about 51% from the first quarter of 2007. This was due to the contribution from our new wind, hydro and biomass power assets. Cardinal also received higher power prices under its power purchase agreement.

Distributable cash was up about 36% while distributions to unitholders increased about 70%. On a per unit basis, distributions to unitholders were 26.2 cents per unit versus 25.7 cents per unit last year.

This represents a payout ratio of approximately 80% compared with 64% last year. This variance primarily reflects that there were more units outstanding in 2008 than in 2007 as a result of the Clean Power acquisition.

Operationally, our assets delivered results that were according to plan with stable availability and capacity.

Cardinal produced approximately 346,000 megawatt hours of electricity, which was slightly up over 2007.

Erie Shores Wind Farm produced about 82,000 megawatt hours of electricity, which was about 8% less than last year but in line with our forecast. The variance reflects that wind speed and density during the first quarter of 2007 were unusually strong.

The hydro power facilities produced 29,937 megawatt hours of electricity, which was in line with 2007. Strong hydrology at the two Ontario plants offset lower hydrology due to colder than usual weather at Sechelt in British Columbia. Sechelt also underwent electrical and mechanical maintenance during the quarter.

Electricity production at Whitecourt was up about 11% to 52,109 megawatt hours.

At Leisureworld, revenue increased 27.1% while income from operations grew by 8.1%. These gains primarily reflected the contribution of the newly acquired homes. They also reflect improved occupancy across the portfolio and higher occupancy of private rooms, for which Leisureworld receives a regulated premium of \$18 per day per bed. Private beds represent about 33.3% of Leisureworld's beds. Government funding was also up over last year.

There were some other notable highlights during the quarter.

First, we increased distributions to unitholders in January, bringing distributions to \$1.05 per unit on an annualized basis. This marked the Fund's third distribution increase, representing compound annual growth in distributions of 2.8% since inception.



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Second, Leisureworld completed its acquisition of seven long-term care homes on January 31, 2008. This transaction makes Leisureworld the third largest provider of long-term care in Ontario with a market share of about 5.6%.

In addition, Leisureworld also announced the acquisition of the Good Samaritan Seniors Complex, which is a 64-bed Class A long-term care home and an attached 24-bed retirement home in Alliston, Ontario. This acquisition is subject to approval from the Ontario Ministry of Health and Long-Term Care.

Combined, these two transactions will contribute to the long-term predictability of Leisureworld's distributions. They also strengthen our platform for continuing growth in this sector.

I should also note that in April, Cardinal completed its combustion inspection in four days instead of the five days typically required --- extending the plant's excellent maintenance record.

I'll say more on our financial resources, and provide an update on our growth strategy and outlook in a minute. First, Harry will review the financials in greater detail....



**Harry Atterton – Vice President and Chief Financial Officer**

Thanks, Greg. Good morning, everyone. I'll focus my remarks today on costs, non-cash items and MPT's financial position.

Operating expenses during the quarter increased by \$5.6 million to \$21.3 million, which reflects the addition of the new assets as well as increased fuel usage and higher gas transportation costs at Cardinal.

Administrative expenses were up by \$1.7 million to \$4.5 million. This reflects higher management fees due to the new assets. Cost reimbursement also increased, which reflects the addition of finance and asset management resources to support the expanded portfolio as well as ongoing business development opportunities.

Turning to non-cash items...as you are aware, the Fund records changes in embedded derivative instruments. This is a non-cash item that will continue to fluctuate until the end of these contracts in 2008.

Cardinal's swap agreements do not qualify for hedge accounting. As such, they have been recognized on the balance sheet as deferred liability and do not impact distributable cash.

The Fund continues to enjoy a strong financial position and considerable resources for future growth.

We ended the quarter with positive working capital of \$32.7 million and cash on hand of \$25.6 million, including fully funded maintenance and reserve accounts.

The Fund also remains conservatively leveraged relative to the low risk profile of our assets, with a debt to capitalization ratio of about 39.3%.

At quarter end, long-term debt totalled \$196.7 million, reflecting:

- A \$35-million term loan for Cardinal;
- \$50 million on the CPOT facility; and
- And \$115 million in project debt for Erie Shores.

It's also important to note that the Fund has no refinancing requirements for 2008 or 2009. And at the individual asset level, we have very little short-term exposure for our debt facilities.

In addition, we have approximately \$100-million available under various credit facilities to pursue growth.

So I am very comfortable with the quality of our current portfolio, the stability of our financial position and our ability to further diversify the Fund.

I'll now turn it back to Greg for concluding remarks....Greg?



**Gregory Smith – President and Chief Executive Officer**

Thanks, Harry.

We expect our portfolio to generate stable performance in 2008 and beyond. This reflects the essential nature, inelastic demand and predictable cash flow that characterize our assets, all of which operate under long-term contracts or within a regulated environment.

While Cardinal will continue to benefit from higher electricity rates under its PPA, the increase in gas transportation costs that we were forecasting has proven to be greater than anticipated. Effective April 1, TransCanada Pipelines received a regulated rate increase to \$1.31 per gigajoule, which is up from \$1.09. This will result in higher operating costs at the plant and reduced cash flow.

This impact will be partially offset by contribution from our new assets, all of which are performing in line with our expectations and have zero- or low-cost fuel sources.

We expect Erie Shores to deliver annual production of approximately 245,600 megawatt hours, subject to wind speed and density.

We expect increased production from the hydro facilities through the spring months as the weather continues to warm, which will increase water flows. We anticipate that the hydro facilities will generate long-term average production of 166,360 megawatt hours per year.

Whitcourt is operating reliably, due to the stability of its fuel supply and strong maintenance program. The plant is currently undergoing its major maintenance, which is expected to take approximately 24 days. While this work is being done, we will be making enhancements to the steam turbine to increase output and sustain it at a higher level.

Across all of our plants, we will continue to look for ways to tweak operations and drive higher output. These initiatives include improving inventory management at Erie Shores to enhance availability and upgrading equipment at the hydro facilities to drive efficiency gains.

For Leisureworld, a key focus is on securing Ministry approval for the Good Samaritan acquisition, which we expect to receive by the end of 2008. We will also focus on optimizing occupancy across the portfolio.

For 2008, we expect to deliver stable distributions and to achieve a payout ratio of approximately 100%. This guidance reflects the impact of higher than expected transportation costs at Cardinal and allows for the possibility of further rate increases this year.

I should also note that routine maintenance costs at each of our power plants is fully funded through our major maintenance reserve account and has no impact on distributable cash.

As Harry said, we are very comfortable with the Fund's financial position and prospects for 2008.

Growth remains an important emphasis and we are actively evaluating a range of opportunities to further diversify our portfolio and create value for unitholders.



These opportunities could include power generation, particularly in the renewables space, as well as electricity transmission and distribution. We are also looking to grow our long-term core portfolio and to add new categories of infrastructure to the mix, including through public-private partnerships.

Longer term, another potential source of value for the Fund lies in the attractive environmental profile of our power generation assets. The regulatory framework for greenhouse gas targets and the carbon offset program is continuing to evolve. However, we believe that our assets are environmentally sound and well positioned to be net receivers of carbon credits.

Overall, we believe that there are a number of attractive infrastructure investment opportunities. About 50% of Canada's infrastructure will reach the end of its serviceable life by 2027. This is creating an urgent need for investment and renewal.

MPT offers investors an opportunity to benefit from the stable, long-term cash flow generated by essential infrastructure assets, which acts as a hedge against inflation.

In fact, infrastructure assets typically have a low correlation to equities or bonds. This makes infrastructure an important diversification tool. Basically, MPT is providing investors with a yield-based return that is a spread over Government of Canada bonds.

So to summarize, we're very pleased with the performance of our portfolio in the first quarter and expect to deliver continuing stable distributions in 2008 and beyond.

At the same time, we have significant financial strength and flexibility to further increase the size and value of our portfolio.

We appreciate your continuing support and would now be pleased to take your questions.

**Operator**

Thank you. We will now take questions from the telephone lines. If you have a question and you're using a speakerphone, please lift your handset before making your selection. If you have a question, please press \*1 on your telephone keypad. If at any time you wish to cancel your question, please press the # sign. Please press \*1 at this time if you have a question. There will be a brief pause while the participants register. Thank you for your patience.

The first question is from Bill Cabel from TD Securities. Please go ahead.

**Bill Cabel – TD Securities**

Hi, guys.



**Gregory Smith – President and Chief Executive Officer**

Good morning, Bill.

**Bill Cabel– TD Securities**

Just a couple of questions on the gas tariff increase. So, it's a 20% increase in the gas tariff itself...could you maybe give some colour as to what percentage of your gas cost maybe in 2007 were a product of this tariff?

**Gregory Smith – President and Chief Executive Officer**

The gas transportation cost, Bill, the initial increase that TCPL had asked for was approximately 6%. Combined with the latest increase, the total increase over 2007 is about a 27% increase over the prior year and that takes it to the \$1.31 per gigajoule

**Bill Cabel – TD Securities**

Right.

**Gregory Smith – President and Chief Executive Officer**

I'm not sure if we've actually broken down our gas transportation cost and our gas cost previously, Bill. It has a significant impact to the business overall which is why we've slightly revised our guidance to the marketplace to take the payout ratio to about 100% versus the range of 95% to 100%.

**Bill Cabel – TD Securities**

Okay. Could we then read into that --- with the 5% increase in the lower level of your payout ratio guidance --- could we translate that into a dollar value by looking at what impact that could have in terms of distributable cash that it would be associated with? Is that a fair way to go about this?

**Gregory Smith – President and Chief Executive Officer**

I'm not sure I quite followed you, Bill. Sorry, you want to try that again?

**Bill Cabel – TD Securities**

What I'm trying to get at is a dollar impact of this increase. I'm just looking for maybe a little bit more guidance as to how one might go about that. If we can make assumptions...let's put it this way, I guess: if I were to make an assumption as to what percentage of your gas was transportation-related, is this tariff the entire cost of transportation? Is that how one would look at this? Or this is a 20% increase in the transportation cost?

**Gregory Smith – President and Chief Executive Officer**

That is our cost to take up to Dawn hub and then we have other transportation agreements to take the gas the rest of the way to the facility itself. It does represent the more significant portion of the gas transportation cost.

**Bill Cabel – TD Securities**

Okay.

**Gregory Smith — President and Chief Executive Officer**

And in order of magnitude, the increase would have an order of magnitude that would be in excess of a \$1-million dollar in impact to the cash flow of the business.



**Bill Cabel – TD Securities**

Okay. Great. Thank you. Others have commented on the impact, on like similar margin impact from this same event and suggested they were seeking relief from the OEFC. Can you comment on whether or not you might be looking at, I guess, making a similar complaint and if you think that that's a possible positive outcome?

**Gregory Smith – President and Chief Executive Officer**

We're working quite closely with the Toll Task Force and the Association of Power Producers of Ontario in discussions with TCPL regarding the nature of the increase and other mitigants that could be undertaken. It is a bit of a rate shock especially when the original guidance was more like a 6% to 8% increase for the year and so we're working with our peers in the power sector and the industrial customers that are also strong users of TCPL and gas in Ontario and formulating a number of strategies to mitigate this cost impact. What we decided to do is provide our investors with the most conservative guidance in terms of the magnitude of the impact. We are working aggressively to minimize that impact and look for recoveries in a number of different ways.

**Bill Cabel – TD Securities**

Right. And this change in the transportation amount, that's an annual event so the step out this year was just the size of it. Now, it is possible that there could be areversion next year? How do you see that playing out over the next couple of years?

**Gregory Smith – President and Chief Executive Officer**

That's difficult to project because a lot of the discussions are still pending which is... I think that this year's increase is going to sort of happen as it already has effective April 1st and we actually expect a further increase to happen this year and we've taken that into account as well...into our forecast numbers. I think the conclusion is we're trying to look out what is the longer-term solution to ensure that we minimize the gas transportation cost and the amount or volume that actually is occurring on the TCPL main line.....that comes from Western Canada. So we will be looking at a number of options there.

The toll history, if you look at the history, it actually went down in 2006 after strong demand in 2005, so it has had some volatility going up and down in terms of overall rates. It's just not necessarily of the magnitude that we have experienced this year. So, in terms of looking forward, I'm not sure if I would use the same magnitude of increases in terms of where our tolls are or whether they go up or down slightly, it's still undeterminable at this time.

**Bill Cabel – TD Securities**

Thanks. Okay. Well, thanks a lot for that color. I appreciate it. Those are my questions.

**Gregory Smith – President and Chief Executive Officer**

Thanks, Bill.

**Operator**



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

**Michael McGowan – BMO Capital Markets**

Good morning.

**Gregory Smith – President and Chief Executive Officer**

Hi, Michael.

**Michael McGowan – BMO Capital Markets**

Hello. Can you hear me?

**Gregory Smith – President and Chief Executive Officer**

Yes.

**Michael McGowan – BMO Capital Markets**

I have a question about some of the results at Leisureworld. It looks like your occupancy margins and your preferred occupancy margins have both increased, but your actual, I guess, operating margins there have or cash operating margins have decreased slightly. Is that really the result of the Counsel acquisition? The additional class C homes to your portfolio?

**Gregory Smith – President and Chief Executive Officer**

What you're probably looking at is the acquisition, which closed at the end of January and we staffed up for transition, training at the corporate office, regional directors, etc, education and training, those kind of things in early January. And so, you would see probably reduced operating margins as a result of the transition cost associated with the acquisition of the Diversicare portfolio.

**Michael McGowan – BMO Capital Markets**

So, then extrapolating those results, is it fair to say that with the addition of the class C homes, that margins would likely be lower through the remainder of the year as to oppose to where they were in 2007?

**Gregory Smith – President and Chief Executive Officer**

I'm not sure if I'd be using Q1 as an example of expected operating cost structure and overall margins for the year. So, we would expect that Leisureworld's performance would improve in the second, third, and fourth quarter of this year compared to Q1.

**Michael McGowan – BMO Capital Markets**

I understand that, but would you expect an overall decrease in margins compared to the previous year?

**Gregory Smith – President and Chief Executive Officer**

I think the... I don't have that statistic on my fingertips, Michael. What I can tell you is that we expect to have the distributable cash number approximate the cash distributed by the business this year. That's about the best guidance I could give you at this time, Michael.



**Michael McGowan – BMO Capital Markets**

Okay. There is a little bit of disclosure in the earnings release about a new swap, a new gas swap agreement in place at Cardinal. I couldn't find the strike price. Has that been disclosed at this time?

**Gregory Smith – President and Chief Executive Officer**

I do not think we have it in the actual MD&A but we've entered into three agreements for 2009, 2010, and subsequent to quarter end for 2011 and the strike prices that we bet on those were \$8.65, \$8.68, and \$9.35.

**Michael McGowan – BMO Capital Markets**

So that's \$8.65, \$8.68, and \$9.35?

**Gregory Smith – President and Chief Executive Officer**

Yes.

**Michael McGowan – BMO Capital Markets**

Okay. This is my last question. There is also a note disclosed about some of the tax losses that you had. It looks like there's about \$108 million in capital tax loss carry forwards. Now, would you potentially be able to apply those at all to future SIFT taxes that may payable or really would they only be useful against capital gains and dispositions of assets that may occur in the future?

**Harry Atterton – Vice President and Chief Financial Officer**

Yes. They're capital losses so we can use those on capital transactions. In terms of using with any other aspect, unless legislation gives us the opportunity to do so....that's not apparent to us right now.

**Michael McGowan – BMO Capital Markets**

Okay. Thank you.

**Gregory Smith – President and Chief Executive Officer**

Thanks, Michael.

**Operator**

Thank you. The following question is from Robert Kwan of RBC Capital Markets. Please go ahead.

**Robert Kwan – RBC Capital Markets**

Good morning.

**Gregory Smith – President and Chief Executive Officer**

Good morning.

**Robert Kwan – RBC Capital Markets**

You've talked about the \$100 million credit that you have available under various facilities. Do you feel comfortable tapping that whole amount without coming for any equity just in terms of the where your debt to cap would be?



**Gregory Smith – President and Chief Executive Officer**

The \$100 million is actually available....we took that up under the CPOT facility in conjunction with the acquisition of Clean Power back in June of last year.

What it does, is actually gives us flexibility in terms of how we approach acquisitions and the timing of those acquisitions vis à vis where our unit price would be at a point in time. So it's just another tool available to the trustees to execute accretive transactions for the benefit of unitholders. And so, at this point in time, we actually feel very comfortable with that position. There's actually, in our view and in the view of the financial institutions that we deal with, is additional leverage capacity that would be available to us at very attractive credit spreads. So I feel very comfortable with the \$100 million availability and it's a good indication in terms of the size and nature of opportunities that we're looking at the marketplace.

**Robert Kwan – RBC Capital Markets**

I just have a related acquisition question. Greg, you talked about one of the things being augmenting the long-term care portfolio. Just in terms of the business mix and the size of the asset should the sister fund decide to sell the other 55% of Leisureworld, would that be something you'd be interested in in terms of where your business mix would be going forward?

**Gregory Smith – President and Chief Executive Officer**

I think that Leisureworld has proven to be a very strong cash flow contributor to MPT. We're actually very pleased in terms of how it has complemented our cash flow profile and diversified our portfolio overall. So, as we look our portfolio mix, we would be interested in acquiring more long-term care. If MIIFL decided to sell its 55% interest, it would be something that we'd look at. Our emphasis is still on power and infrastructure as an overall emphasis of the portfolio. That's what our investors understand and expect but we will continue to approach the long-term care sector and other infrastructure opportunities, such as public-private partnerships, as they complement and diversify and benefit the portfolio overall.

**Robert Kwan – RBC Capital Markets**

And just, the last question, is coming back to make sure I'm understanding this on the gas transportation charges. You've outlined kind of the impact for this year, if you look at some of what TransCanada has put out there, they're looking for continued throughput declines which in isolation is just going to continue to push up the toll. And if we do see a similar magnitude increase next year, are there any other meaningful offsets in terms of growth in the portfolio or could we continue to operate, I guess, at 100% payout ratio in the foreseeable future?

**Gregory Smith – President and Chief Executive Officer**

I think what we've seen since our inception, when we launched in April of 2004 we launched at a payout ratio that was in excess of 100% at the time and we were able to continue to grow our distributions to unitholders on an annual rate of about 2.8% since April of 2004. And so, our portfolio has the ability to provide that stable distribution with the growth potential underlying the contracts, such as the accommodation envelope increases at Leisureworld, or the DCR increases at Cardinal, and other factors that exist within the portfolio, such as tweaking operations as we did with the



mist system at Cardinal, and the steam turbine at Whitecourt in terms of this year's maintenance programs.

So, there're always opportunities to optimize the portfolio to continue to provide that rate of distribution growth that slightly exceeds inflation in Canada and that provides a really great natural hedge against inflation for our investors.

When I'm looking out at 2009 and 2010, I think that gas transportation cost will be an issue but we have just started working with our peers in the sector and the other industrial users of gas, and there are a number of areas to look at to mitigate the declining volume on the TCPL main line. We will work aggressively with TCPL to ensure that rates don't escalate to the same magnitude that they have in 2008.

**Robert Kwan – RBC Capital Markets**

Can you just share what are some of the potential mitigating factors that you've discussed with your peers?

**Gregory Smith – President and Chief Executive Officer**

That is difficult to do at this time. It's a regulated industry and understanding rate shock and working with the National Energy Board and TCPL, there are some natural ways that you can look at mitigating the impact of declining volumes in the pipeline and pipeline capacity. So, it's probably a bit speculative to go into it but we do have a working group that's focused on it and there are a number of elements that we are exploring to reduce the cost impact.

**Robert Kwan – RBC Capital Markets**

Okay. Great. Thank you, Greg.

**Gregory Smith – President and Chief Executive Officer**

Thanks, Rob.

**Operator**

Thank you. Once again, please press \*1 at this time if you have a question. The following question is from Alda Pavao of CIBC World Markets. Please go ahead.

**Alda Pavao – CIBC World Markets**

Good morning. You talked about exploring investment opportunities across various segments, including power. I just want to touch on that, if you're seeing opportunities more on the acquisition front of the process or development of new renewable assets more at the forefront of your investment opportunities?

**Gregory Smith – President and Chief Executive Officer**

What we're actually seeing, Alda, is both. We're actually seeing opportunities in the acquisition of existing assets as well as potential greenfield development projects that are out there across the renewable sector, whether it's wind-type or solar, etc. There are some interesting greenfield opportunities that are taking place in North America, and in particularly in Canada.



What we are also seeing, I think I've mentioned previously, is that the return expectations in both greenfield and brownfield opportunities have improved over the last 12 to 18 months and so we're seeing more attractive pricing at better risk return profile in the power segment of the infrastructure space than we've seen in the past. So, we are going to be actively pursuing those opportunities.

**Alda Pavao – CIBC World Markets**

Now, in terms of acquisitions of existing assets, are you focused predominantly in Canada or are you also looking in the U.S.?

**Gregory Smith –President and Chief Executive Officer**

We have a North American mandate but our preference is for Canadian assets and so, a substantial portion of our time is focused on the Canadian marketplace versus the U.S. marketplace.

**Alda Pavao – CIBC World Markets**

Okay, great. Those are my questions.

**Gregory Smith – President and Chief Executive Officer**

Thank you, Alda.

**Operator**

Thank you. Once again, please press \*1 at this time if you have a question. There are no further questions registered at this time. I'd like to turn the meeting back over to Mr. Smith.

**Gregory Smith –President and Chief Executive Officer**

Thanks again, everyone, for your questions and for joining us today and we look forward to speaking with you again next quarter. Thank you.

**Operator**

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