FINAL TRANSCRIPT

TransAlta Corporation

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PRESENTATION

Operator

Good morning. My name is Dan and I will be your Conference Operator today. At this time, I would like to welcome everyone to the TransAlta Corporation's First Quarter 2017 Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, followed by the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key. Thank you. Jaeson Jaman, you may begin your conference.

Jaeson Jaman – Manager, Investor Relations, TransAlta Corporation

Thank you Operator. Good morning, and welcome to the TransAlta first quarter 2017 conference call. My name is Jaeson Jaman, Manager of Investor Relations. With me today are Dawn Farrell, President and Chief Executive Officer, Donald Tremblay, Chief Financial Officer, John Kousinioris, Chief Legal and Compliance Officer, Brent Ward, Managing Director and Treasurer.

The call today is webcast and I invite those listening on the phone lines to view the supporting slides which are available on our website. A replay of the call will be available later today and the transcripts will be posted to our website shortly thereafter. All information provided during this conference call is subject to the forward-looking qualifications, which are set out in the slide deck and detailed in our MD&A and incorporated in full for the purposes of today's call. The amounts referenced are in Canadian currency unless otherwise stated. The non-IFRS terminology used, including comparable gross margin, EBITDA, funds from operation, free cash flow, and comparable earnings and reconciled in the MD&A. On today's call, Dawn and Donald will review the first quarter results and discuss progress made against TransAlta's goals and priorities for 2017. After these prepared remarks, we will open the call for questions.

With that, let me turn the call over to Dawn.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Thanks, Jason and welcome everyone. Lots to talk about today and really a lot has happened in the last six months and we feel that this is the right time to do, a bit of what we call, a reset call. Today's call has many more details on our near-term growth opportunities, our accelerated plans for coal to gas conversions and our bridge to the $400 million of free cash flow, from where we are today.

I would like to start with just a bit of my assessment of the quarter, and as you can see from the highlights on this slide, our EBITDA, FFO and free cash flow were either in line with last year or were exceeded. However, as with many things in life, the devil is in the detail. So, well Donald's detailed comments will help you understand the quarter's performance, what I do want to be clear about is that I remain very confident that we are well on track to achieving our 2017 guidance.

I do want to take a bit of a moment though to discuss one aspect of our operational performance and that is our adjusted availability from our coal fleet, which fell to 84.5 percent from the 90.1 percent last year. Lower availability was due in part to a higher level of unplanned outages that we experienced in our Alberta coal fleet in January. Additionally, we did have an unplanned outage in January, in Centralia on Unit 1 that was caused by the failure of an exciter. So, when we came out of the gate January was a bit of a tough month, but as all of you know power prices both in Alberta and the Pacific Northwest are extremely low, and the financial impact of this reduced availability was minimal.

Now, since January, availability has returned to normal levels, as we expected and we do expect that the full year availability will come in probably more towards the low end of our guided range and in the coal fleet, that is 86 percent to 88 percent, but given the outlook for prices, we see the financial impact of that lower end availability in that coal fleet to be quite minimal.

Now, I would like to also highlight a few areas on our financial strength that we have developed and you will hear more about this today as Donald takes you through the details. But, first I would like to point out that we have doubled our liquidity from March of 2015 by more than a billion dollars in just two years. We do have $500 million of cash in the bank, which will position us to pay off our 2017 maturity and Donald will talk about that.

We have made impressive strides on improving our key financial ratios, our FFO to net debt is now 18.2 compared to 16.2 for the first quarter of 2016, and you are going to hear today about some more specifics around our Greenfield Development Pipeline, which includes 350 megawatts of shovel-ready projects in Alberta and Saskatchewan that will be bided into the upcoming renewables RSP's.

So, all of this, in my view is excellent news for both TransAlta shareholders and our debt holders.

Before I turn the call to Donald, just a few comments on our strategic decision on Sundance Units 1 & 2, along with our plans to go from coal to gas at Sundance Units 3 and 6 and Keephills 1 and 2. These decisions show TransAlta commitment to align and execute our strategy to be consistent with Alberta and Canada's environmental and power policies, and these strategic actions provide a clear line of sight for investors regarding future cash flows from the coal units that we intend to convert to natural gas, and just as importantly, our employees can now better prepare for the changes ahead and align their plans with our strategies.

At the end of the call, I'm going to share in detail the factors that we considered to make the decision to accelerate our coal to gas conversion, but simply here, just know that the strategy minimizes the capital required, reduces risk significantly and accelerates the return on and of our invested capital.

Now, my goal today in this call is to provide you with more insight and remove some of the uncertainty that we believe still exists around TransAlta. Donald is going to run you through a bridge of the cash flow, which is moving a run-rate of $250 million to $300 million to $400 million in the 2018-

2020 period. I am going to provide you a bit more detail on a key project that we have internally here called Greenlight, that we introduced at our annual meeting, and I am going to provide you with a kind of insight that you need to assess where we are, as these renewable RSP's come underway here in the Prairies.

So, with that I will call—I'm going to turn the call over to Donald. He'll go through the details of the quarter and he is going to talk about our progress on strengthening our balance sheet.

Donald Tremblay – Chief Financial Officer, TransAlta Corporation

Thank you, Dawn and welcome to everyone on the call. As Dawn noted, at the beginning of our discussion, our EBITDA, FFO and free cash flow were in line with 2016. Slide 5 provides the segmented result for our generation assets for the quarter. EBITDA from operations was $302 million. This is an increase of $28 million over the first quarter of 2016 and $20 million above our three year run-rate for the first quarter of approximately $282 million.

Canadian gas was up $23 million over the first quarter of 2016. During the quarter, we progress settlement discussed with the Ontario Energy Financial Corporation on an indexation dispute that relates to the period of 2013 through 2016 on our Windsor and Ottawa facilities. The total sales and settlement, which is expected to be approximately $34 million was booked in the (inaudible) quarter.

Offsetting this was mark-to-market losses related to gas edge on future gas requirement that don't qualify for edge accounting and lower revenue from our new contract at our Winsor facility.

For the last 20 years, the Windsor facility provides both energy and capacity to the Ontario markets. The new contract allows the facility to provide capacity to Ontario for the next 15 years. Canadian coal EBITDA was $91 million, down $12 million over the first quarter of 2016. This result was not a surprise and was expected given the replacement of higher price etch, with etch of lower value, as well, we had expected increased fuel costs by planned maintenance to a drive line and higher swift ratio at the mine.

The development of new pit area at the mine for the remaining 2017 and 2018 will improve our strip ratio moving forward.

In Q1, we started to accrue the Off-Coal Agreement payment of $39 million a year with the Alberta Government. We will be accruing approximately $10 million per quarter if accrual is booked in the net operating income—net other (inaudible), sorry. U.S. coal EBITDA was up $14 million from the first quarter in 2016. Even though this is a year-over-year improvement, this was below our expectations, as power price in the Pacific Northwest were lowered than expected, which significantly reduced our margin on non-contracted generation. The low price on (inaudible) lead us and early shut down on Unit 2 for its plant maintenance in February, while Unit 1 was shut down in January due to unplanned maintenance that Dawn mentioned earlier.

Our wind and solar EBITDA was up $7 million over the same quarter in 2016, due to the sale of solar renewable energy credit on our solar farm in Massachusetts. Strong wind production in Eastern Canada at higher contracted price, also contributed to improved performance. Energy marketing delivered performance that was below our expectations and the normal run-rate for the first quarter. Unusual weather conditions in the northeast, which had the third warmest winter on record in 120 years, and the west which experienced extreme participation, caused our team to limit the size of position taken in the market compared to prior year. Also impacting energy marketing year-over-year was the roll up of some of the customer business that was in place during 2016. As a result of the Q1 performance, we have adjusted our 2017 objective for energy marketing to $60 million to $70 million in gross margin for the year, down from $70 million to $90 million that we had set at the beginning of the year.

As you can see here on the slide, our price has been dropping since 2013, moving from approximately $65 per megawatt hour in Q1 of 2013 down to a low of $18 per megawatt hour last year in Q1. The charge amongst (inaudible) that dynamic, we have maintained strong EBITDA consistency above $250 million in each of the past five years' first quarter. Additionally, during the same period, our FFO average that roughly $200 million per year.

Now, let's talk about our balance sheet and our creative metric. As you can see from the slide, our liquidity is to build, including cash of $500 million. The build-up of cash was expected, as we are preparing to pay off debt, U.S. $400 million bond that matured in June 2017. The $200 million increase in cash during the quarter is due to strong cash generated by the business, decrease in our working capital and the sale of Wintering Hills.

Turning to Slide 9, our FFO to adjusted net debt ratio has improved two full points over the level at the first quarter in 2016, resulting from strong performance of the business and a focus on debt reduction. Period-over-period revolving FFO is up approximately $50 million to approximately $770 million and the net debt has been reduced by approximately $230, mostly as our cash balance have increased. The commissioning of South Hedland, later this year is expected to further announce these ratio. With a full year contribution to EBITDA in 2018, we expect to achieve our goal of FFO to adjusted net debt in the range of 20 percent to 25 percent and adjusted net debt to EBITDA of $3 million to $3.5 million.

We are now focusing our attention to our 2018 debt maturity of $800 million and raising the capital required to complete South Hedland construction in 2017, which is approximately $230 million. To do so, we are planning to raise approximately $700 million to $900 million through financing contracted cash flow and slide and cash generated by the business in 2017 and 2018. Our goal is to improve our credit metrics so we are at the high end of our target of 20 percent to 25 percent FFO to net debt by 2020.

During our call in March, we told you that we are targeting $400 million annually in free cash flow for the period of 2018 to 2020. I will take a few minutes here to tell you how we will get there.

I am starting with our 2016 free cash flow of $250 million. This free cash flow includes the non-recurring $25 million MSA settlement payment. Our (inaudible) project will be COD in the second half of the year and will contribute approximately $40 million to our free cash flow in 2017. Our cash flow this year will also include the Off-Coal transition payment of $37 million from the Alberta Government. This is net of the amount due to our non-controlling partner. However, as I mentioned earlier, our 2017 result will be negatively impacted by the rolling up of our edge at Canadian coal and increase coal cost at the mine. Some of the higher coal costs will reverse in 2018 to 2010.

Looking forward, Sundance 1 and Sundance 2 are contributing approximately $15 million each under the PTA, after sustained CAPEX. Their early retirement or low volume will negatively impact our cash flow compared to 2016-2017. However, their contribution has merchant unit (phon) with negative over the next two years. The decision to accelerate the coal to gas conversion will allow us to reduce our capital expenditure related to certain equipment at the mine and the plant, positively impacting cash flow by approximately $20 million on average over the 2018 to 2020 period. This impact will be more visible as we get closer to the coal to gas conversion.

As you all know, the contract at Mississauga will expire in 2018. The plant contributed approximately $40 million a year in free cash flow, after payment to our non-continuing partner. The

Popular Creek (inaudible) payment will also be reduced by $35 million starting in 2018. This reduction will be offset by the full year contribution of the South Hedland post-2017, which will add an additional $40 million to our free cash flow, as well as lower interest expense, as we continue to reduce our debt between 2017-2020.

Our renewable asset in Alberta should benefit from the full implementation of the carbon tax. We expect price to increase by $15 to $20 per megawatt hour over today's price starting in 2018. This increase is already visible in the forward curve. The impact of improved pricing on Alberta Wind and Hydro should add $20 million to $30 million to our free cash flow.

Lastly, over the last two years, we have made significant reduction in our cost structure, which we believe we can still deliver more and improve our free cash flow. All of our business and leaders are committed to this transformation and we believe that Greenlight can deliver sustainable paving of $50 million to $70 million annually, commencing in 2018. This represents a reduction of approximately 5 percent of our existing costs and sustaining capital. Dawn will be providing further detail on this initiative in her remarks.

With that, I will now pass the call back to Dawn for the closing.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Thanks, Donald, I think that was excellent, there's lots of information in there, so I think as people get the script, they will want to study that.

I am going to spend the last few minutes of the call walking you through three things. First, I'll share the factors that we considered in making our strategic decision to accelerate coal to gas conversion. Second, I am going to provide you with a bit more detail on project Greenlight that Donald just referred to. Third, I am going to walk you through some of our details on the growth prospects and how we think about opportunities in the Greenfield space. So, let me start with accelerating our conversion.

Now, for many of you, it may be an intuitive conclusion that running the assets over the longest period of time that you can, is the most valuable. So, in our case that would mean running the assets to the end of their lives on coal and then converting to gas, and I think the conclusion would be that would make the most economic decision. To be honest, our team thought this way as well, and at least we did until we sifted through all the factors and did the analysis, and in the end our analysis showed that accelerating the conversion is actually the right thing to do.

So, let me walk you through some of the factors we considered and how we thought about the risks. So, first we did consider the total capital costs and we broke these capital costs into two buckets. First of all, we looked at our sustaining capital, which is really based on our run-rate for our Canadian coal fleet and it includes the capital that's required in the mines, and that capital as you know, is in the order of about $200 million a year. We also considered the additional (inaudible) costs, which are one-time costs which would be required to run any coal access beyond 2021 and we estimated those costs to be in the range of $250 million to $300 million for our coal fleet.

Now, putting this into perspective, a decision to continue running on coal until 2026 for some units and 2029 for others, would require us to spend approximately $1.5 billion more in incremental capital costs in the plants and in the mines and as well in (inaudible) cost. This capital would then have to be recovered over the 10 to 15 years of potential incremental asset life between that 2035 and 2045 period. We also believe that the pace of technological innovation that we are seeing today adds obsolesce risk to our plants if we look at extending their asset lives too long. So, with our chosen strategy, which is to convert early, we see an immediate reduction in our capital until 2021.

Then over the course of two years, we will spend $300 million converting the units as planned and we will do that in $15 million chunks as we do the outages and these converted plants will run for up to 15 years, with roughly half the annual capital spend. So, that was our first big bucket of considerations as we made this decision.

Secondly, we considered the gas outlook and gas prices and gas volumes. Today, we have an oversupplied gas market here in the west due to a lack of demand here in the west and an inability to get the gas to market in the east or U.S. because there is an emerging supply of gas in those markets that is taking up the demand that is in those other markets. The high value of liquids in the Alberta gas basin isn't citing producers to drill, but we do believe that that will evolve over the next 10 to 15 years. This high volume of drilling here in the west to get the liquids out, does leave a lot of gas in the market here that can be burnt. So, converting our coal units to gas on our planned timeframe, which is an accelerated timeframe, allows us to utilize this low cost resource when it's available.

Third, the third thing we looked at was the cost of carbon, and as you know, it's $30 here in Alberta and it will there by next year. However, as you all know, the Federal Government has instituted a compliance for the provinces to be at the level of $50 by 2022.

It is our view that it's more likely, than not, that Alberta will migrate to the Federal target. In fact, we believe that ultimately the cost of carbon is likely to rise rather than to fall, especially for those of us that are in the power market. As I said on our call, with our investors at our annual meeting, consumers want affordable and clean electricity, so we concluded that there would always be pressure on the power sector to minimize the use of carbon, whether it's through a carbon tax or some other mechanism. So, we concluded that the sooner we convert, the sooner that we start to save on the cost of carbon, which for the coal units, is approximately $18 to $20 a megawatt hour, and that's only if you have a $30 carbon price.

So, in conclusion, we see our decision as an acceleration of cash flows. In the scenario, where we run coal to the end of life, then convert to natural gas, we not only increase our total capital spent and our total capital investment, and that's investment in the near-term, but we add risk that the strong cash flows from the coal to gas conversion will never be realized. All of our NPV analysis pointed to reducing risk and increasing returns to our shareholders by converting now, taking advantage of the lower capital costs, taking advantage of low gas prices versus waiting for what could be an uncertain future, as new technologies come into play in the 2030 to 2040 timeframe.

So, with that behind us, that decision behind us, I do want to take a minute to give you more insight on our major transformation effort, that we recently kicked off and we call it Greenlight. I introduced this project briefly at the AGM, using the metaphor of driving from downtown Calgary to Okotoks without hitting a single red light, which I am hoping that the city will do something about at some point. But Greenlight is not only about getting rid of the corporate red lights that slow down our progress, it's a major corporate transformation effort, which is really needed, as we think about transforming our business from where it is today, to a much simpler business in the future, which will be centered around gas and renewables. I would like to stress that the effort is a top priority of our Company and I am really please about how our team has mobilized to support it.

So, let me briefly say a little more about what it is, who is involved, how it works and why we think it's different than other change programs, and what benefits we expect to generate and how I intend to keep you updated about our progress as we go forward.

First, of all what is Greenlight? Greenlight, is a focus, and it's a multi-year effort, it's not a six-month effort, it's a multi-year effort, and we're in about month eight of it, to drive ambitious improvements in every part of TransAlta. It is designed to improve revenue, reduce operating costs and optimize our capital spend. It's more than just a one-time effort. It amounts to a permanent change in how we intend to run the business and it institutes ongoing processes inside our Company that identify, quantify and execute on opportunity right from the shop floor up. Greenlight involves all of our people. From the beginning, it was created to draw the best improvement ideas out of all of our staff, from the shop floor to the executive level and everyone in between. We know that this is the only way to unlock the full potential of the organization fundamentally. It boils down to engaging all our employees regardless of their level of the corporation and to bring their ideas and energy to the table.

Now, how does it work? We have organized the Company, into a number of work streams, each headed by an experienced executive. That person's role is to engage all employees in the areas that generate concrete ideas, and we call them initiatives. All initiatives are entered into a central project management solution that tracks both activities and impact, and this—all of the initiatives in this central system are tracked by our senior management team on a weekly basis. The system uses a very rigorous process. It's structured—that are structured and highly automated, so we can manage the ideas, from their idea generation through the businesses cases, through to implementation and finally to the evaluation of what the performance was. So, we can ultimately see, when we get to the delivery stage, the value that each of the initiatives has brought to the Company.

Now, we are training our people, not only to do this once, but make this an ongoing way that we operate the Company. I think this program is different than other things we have tried here at TransAlta. It's different because of the rigor, the engagement and the structure and it will continue to be a top priority in the Company.

Now, I do believe that the process we've designed is rigorous and better than anything we've used before. It really does help us create that, sort of innovation culture. We have, as part of this, instituted a new role called The Chief Transformation Officer and the person that leads that transformation office leads an office of young, enthusiastic and bright TransAlta people, but more importantly she comes from the IT background and her ability to bring innovation together with the kind of work that gets done in the IT space days is what really gives us an ability to see the kind of juice that we can get out of this initiative.

Now, the benefits that will generate, Donald talked about it, those are early numbers, and as always we want to make sure that we make sure that we can deliver what we have promised, but we have big ambition for this—forwhere we can take this.

How will we inform you? As we go forward, we will give you updates on how it's going and what its meaning to us as we transform our Company from where it is today, to a much simpler Company that is involved in gas and renewables, and I want to conclude by saying that I just give the TransAlta executive team a lot of credit for taking on Greenlight at the same time we were making decisions on gas and coal and running the business.

Now, investors do continue to be quite interested in the growth prospects for the Company. People want to know what’s in our development pipeline, how we think about Greenfield opportunities and our focus and our geographic focus. On this slide, you see we’ve got 13,000 megawatts of Greenfield opportunities, in geographies that we operated in and we do have shovel-ready projects. We won’t be successful at every option and we continue to be prudent and disciplined and I think we’ve shown you that over time in making investment proposals that will provide the right returns for the appropriate risk profile. Growth at any cost is not in TransAlta’s plan.

So, let me walk you through the sites where we believe we have some really good opportunities to win some RSP’s at the kind of returns that we like. Between Saskatchewan and Alberta there will be more than 6,000 megawatts of renewable generation built over the next 15 years, and we will win our share of those project development opportunities. In the Prairies we have three shovel-ready projects, Garden plains, Cowley Ridge and Antelope Coulee, holding about 350 megawatts. Beyond this we have additional sites in these provinces that we continue to work on, and we are developing the resource data and making sure that we have the right stakeholder relationships, so that those projects will be there over the long-term.

These three projects are quite similar in their development phase in that we have strong wind resource data, excellent landowner relationships and each can be inservice by 2019. Additionally, the development costs are quite similar at approximately $2 million per megawatt in installed capacity, which equates to the total development cost of around $700 million, if we're successful in the auctions.

Both governments are offering long-term contracts for the upcoming renewable projects and in Alberta they are going to use a contract for different mechanism. In Alberta they will be using a more simple 25 year PPA, and as a result project financing will be available on these projects, which really reduces the actual cash contribution by us, from an equity perspective.

We are continuing to engage with the Alberta Government on our Brazeau project, which we will—which is an absolute enabler to bringing on more renewable projects into Alberta and keeping power in the Alberta market affordable, and we see this tremendous support for this project. So, it's just a matter of now figuring out what the mechanism will be here in Alberta for colleagues on these kinds of projects.

We do expect our newest gas asset South Hedland to be commercial in the next few months, and as you know, we told you several times, it will bring $80 million of EBITDA annually.

In Australia, we do have a mature 80 megawatt solar Greenfield development project, which we have received development approval for the site in December last year. We have been working with the

Tier 1 EPC contractor to handle the construction, operation and maintenance in this facility. It would take about 12 months to construct. It could be inservice by as early as mid ’18 and the team is working on finding a suitable offtaker for it. There is a huge demand in Australia for projects like this in their direct market, and this project has the cost structure which we think is very competitive.

So, in closing when we stand back or when I stand back and think about where we are today compared to where we were 12 short months ago, I think we’ve made a lot of progress. We’ve talked about the progress on the financial side, we’ve accelerated our coal to gas decision, I think in a very logical way that will benefit TransAlta shareholders. We have a focused plan here at the Company for insuring that we have the kind of Company that will be competitive in—as we transition from coal to gas, and I think we are doing all the work that we need to do to accelerate our goal of becoming Canada’s leading gas and power Company—gas and renewables Company.

So, with that, we will take your questions and look forward to them.

Q & A

Operator

At this time, if you would like to ask a question, please press star, followed by the number one on your telephone keypad. Again, that’s star, followed by the number one on your telephone keypad. Your first question comes from the line of Rob Hope (phon). Please go ahead.

Rob Hope

Yes, good morning. Thank you for taking my call. Maybe a question on Greenlight to start off, just seeing that it looks like that could be $50 million to $80 million of benefit there, I am just wondering when do you expect to realize this benefit, and given that it's been in place for it looks like eight months so far, has any been realized so far?

Donald Tremblay - Chief Financial Officer, TransAlta Corporation

So, we will probably start seeing some benefit like in 2017. Keep in mind we are currently in the incubation stage, so the first part of the project was basically a lot of due diligence to make sure that we were coming with the right structure and the right goal. We are expecting to see some benefit this year and the full benefit for sure in 2018.

Dawn Farrell - President and Chief Executive Officer, TransAlta Corporation

Yes, I would say Rob, just to add to that, if you think about the kind of transformation we are making here, for sure there are costs to this, you know, this is not cost free. We couldn't simply just do this without engaging in some real significant change and training and all of that, so the benefits that are coming in 2017 are mostly offsetting the costs. The net benefit phase of the program starts in the 2018-2019 period.

Rob Hope

All right, that's helpful. Then, just to clarify, so the $400 million of free cash flow in that '18, '19, '20 timeframe, would that—that includes the full, I guess run rate of $50 million to $80 million in there?

Donald Tremblay – Chief Financial Officer, TransAlta Corporation

Yes, exactly.

Rob Hope

All right, that's helpful, and then just one quick question on energy trading. So, Q1 was soft. You did revise down your guidance a little bit for the year, is that—but the revision downwards was rather small. Does that imply that you did see good opportunity so far in Q2 or is this more backend loaded?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

No, no, we're starting—we're seeing what we expected to see in Q2, so I'm—I think there has been some—I think the markets are a little bit more normalized now and we're back at doing what we normally do here.

Donald Tremblay – Chief Financial Officer, TransAlta Corporation

What I would say is the traders are generally good to recover. They are imaginative people, they are innovative and they are looking to basically make their number, so we reduced our target, but I still believe that they will deliver.

Rob Hope

All right, that's helpful.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

We don't like to put a high target on trading for three quarters because we don't want excessive risk taking. So, we are back to the normal level of risk that we take and we are seeing good things here in the quarter.

Rob Hope

Great. Thank you. I'll hope back in the queue.

Operator

Your next question comes from the line of Ben Fam (phon). Please go ahead.

Ben Fam

Thanks, good morning. I just want to go back to project Greenlight and it seems like eight months you highlighted, it seems to kind of be around the time of the Alberta coal compensation was announced, so I am just wondering this Greenlight project that you've put out, just wondering what the big emphasis of this, was it just a huge change in business that you're moving towards over the next few years. I am just wondering why you haven't look at it in the past, and I know you want a pretty big corporate reduction strategy a few years back on the corporate side, and so I am just wondering, is there a certain segment that this is mostly targeted on because I would think contracted there's probably not much you could do on the cost side?

Dawn Farrell- President and Chief Executive Officer, TransAlta Corporation

You know what Ben, just to answer that question, a couple of things. So, really you're right, In the last couple of years, we've done some typical downsizing initiatives. We did a downsizing of our corporate function in 2012-2013 and we did a delayering initiative in kind of 2014-2015 period. But, by the time we got to last summer, it was really last summer that I started to really think about it and then you know by October, the team started to really figure out how to get this done, and what we couldn't—what we were worried about was in order for us to make the transformation that we knew was coming, there was no question that it was coming because we were in, you know, some pretty heavy discussions there with the Alberta government, but as we were thinking about that, we knew that the only way through this was to have engagement from the front lines back because it's really the front lines that know how everything works here. Big companies have lots of processes, they have lots of systems, and you know, they have lots of bureaucracy and we knew that to get to the other side we couldn't have that, we had to sort of change the game. We really began the project in earnest in

October, but it's been designed with true front line employee participation all the way through the organization.

So, just kind of in terms of whether or not it will have any impact—so, when you look at those benefits that we're talking about, yes for sure the biggest, you know, one of the bigger businesses in Canadian coal, because there's a lot of work and they've been tremendous at the work that they've been doing, both at the plants and at the mine, but just remember as they start to downsize that mine, as they go forward because we are going to be bringing on more gas, they need this kind of boost and you really need to know that you can engage everybody in what you are doing to get things done well.

But, we do these as we look across our corporate organization, as we look in our businesses that have contracted assets, you know, companies have ways of getting things done and they're taking advantage of finding better ways to get things done as well. So, this is really phase 3, if I was thinking as I said to our two transformation officers, phase 4 is really, really getting after more technology. You all know because you see what is going on in the technology space. There's just enormous opportunities there. So, this really conditions us now to start to think ahead about technology. That's not built into our numbers, that's kind of the next phase, but this is really phase 3 of what's been a journey for us.

Ben Fam

Okay, thanks for that Dawn and I'm just wondering on Slide 14, some more detail on some of the projects you're planning to bid into RFP processes, and just curious about the positioning of those projects, how you think about them. Is it mostly going to be a cost of capital differential between better parties, or is there something you see in these projects that can give you a greater edge?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes. Remember, so from a cost to capital perspective, you know, we have cash flow coming through TransAlta because of the work that the team has done, and we also have a pretty good currency there in TransAlta renewables. So, on a cost to capital basis, I don't think we are disadvantaged at all. Where we have the advantages though with these projects is these early calls are going to require you to be able to hook up to A, already have transmission access, and B, be operational by 2019, which means they already had to have done all of your work and you have to be able to bid in the 2017 timeframe and build in the 2018 timeframe and come online.

So, these first projects that we have here—when we say shovel-ready, they are ready to compete in that case. I am sure there are others that have those, and you know, as you know, there's always investors that will take a nosedive to get into the market. If they do, we are not going to bite, we are going to—our projects—there are 5,000 megawatts coming, I would rather get a good return at the right time then be the first one out of the gate and get a crappy return because people are willing to throw money away. So, but net net—when we look across the range of things you need to do these projects, remember we built 500 megawatts of wind here in Alberta, we know how long it takes to get a foundation built, how many days it takes to get your towers up, we have all that expertise in the Company, so we will be utilizing them.

Ben Fam

Okay, all right. Thanks Dawn. Thanks everybody.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Thank you.

Operator

Your next question comes from the line of Andrew Cusky (phon). Please go ahead.

Andrew Cusky

Thank you. Good morning. Just wondering when you think about the corporate structure of TransAlta and you obviously got a number of assets sitting at TransAlta at the top, the house of legacy Coal (phon) and then you've got TransAlta Renewable, how do you think about the longer term balance or bias of value between the two entities and really the interplay between the two?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes, I mean I continue to see TransAlta Renewable more as a yield co than a renewables co. I mean, frankly, as you've probably picked up, the sooner we do the transitions and the conversions, we become TransAlta Renewable because right now TransAlta Renewable is gas and renewable, but remember TransAlta Renewables is an entity, has the contracted stable cash flow, the cash flows that you feel pretty confident about paying a pretty high dividend out. So, it is a yield co that we pay a lot of the cash out of that vehicle. Now, we own 64% of it and a lot of that cash comes back into TransAlta and is available for distribution either to growth or to the balance sheet.

So, in the short-term we're making sure the balance sheet is strong and also having—we have enough cash there to participate in some of these growth projects. But as we look out over time, I think really the two vehicles offer something a little bit different to different kinds of shareholders. Renewables will tend to be for the shareholders that want a dividend and a really stable cash flow and even when we have a capacity market here and we've got our conversions done, they'll still be some volatility in the cash flow in TransAlta, so that's more of a growth vehicle. So, that's how we are thinking about it today. Things can change, but that's kind of our current view of it, Andrew.

Andrew Cupsky

Okay, that's helpful, and then as you think about just the capital allocation in the Alberta market in the front end on really the conversions, the gas conversions, and I think some of your commentary echoed a little bit of this, this theme of the drilling activity and Alberta/BC predominantly chasing liquids could wind up in a very advantageous gas price environment, which overall could be very interesting for someone like yourself from a power price deliverability at the end. Is that something you just see really stability and power pricing and really a good gas market from a developer standpoint?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes, I would say when we looked at it, you know, as you know tread stones don't last forever, but there is certainly currently an oversupply, and a potential to oversupply gas in almost every market in North America and the Northeastern, you know gas—when you look in the Northeast of BC and you look in Northern Alberta, there is just tons and tons of gas. It's not getting out of here by L&G, it's getting blocked into the basin. So, that's exactly, we're taking that—we would rather take advantage of that gas being in the market early than hope that it's there in 2030. Frankly, we can't see six months, never mind 30, 2030. That's a big, big, big piece of the play. Also if you look at our plant, they'll run quite a bit better on gas and they run at half the capital.

If you just wanted to put it in really simple terms, if you were making the bet and someone said you have to put $250 million of additional compliance cost into coal plants to run them for another 10 years, or you can put $300 million, $50 million more and convert them to gas at a timeframe when you think gas prices are going to be low and you're going to be more competitive, how would you take that bet and you spend half the capital after that. So, it was actually a pretty simple decision after we did 10,000 models and talked about it 10,000 times, but that's really what it came down to.

Andrew Cupsky

Okay, I won't ask you the same question 10,000 times. Thank you.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Thank you.

Operator

Your next question comes from the line of Robert Quan (phon). Please go ahead.

Robert Quan

Morning. Just on the coal to gas conversions, just wondering with engineering work that you've done, what you're expected emission intensity of those units would be, and how does that square up against where the Feds are falling on that?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Well I'm going to—just in terms of the engineering work, we've done our kind of cost free estimates. Our teams have also spent quite a bit of time visiting other convertors, so there is a number of these going on in the U.S. and we have been able to engage with other parties. So, we've got quite a bit of confidence in terms of just getting the work done, it doesn't look that difficult. But, there is quite a moving frame here, in terms of what the Feds want. We know that overall, the Feds are absolutely thrilled and ambitious about TransAlta taking this action and taking it early because truly I think they expected we'd wait for a long time, but I think the greenhouse gas reductions are really worth a lot to them.

So, in terms of actually how to do that and make sure that we get the right—because what you want to do is make sure that if your conversion factor is, let's say 0.65 or 0.7, you want to make sure the regulations hold you to that and that you don't just let the equipment deteriorate and emit more when you don't have to.

But, on the other side of it though, you also want to make sure that we can cycle these things down as low as we can because if they want to bring a lot of renewables into the market, they don't really want base load gas conversion. They want them to be more capacity placed.

So, John Kousiniouris heads up our regulatory and he spends all his life doing this work, so he is going to give you some flavour on that.

John Kousinioris – Chief Legal and Compliance Office and Corporate Secretary, TransAlta Corporation

I think Dawn has actually covered it very well. We're engaged right now in discussions with the Federal Government and actually the Provincial Government as well, on what the emission standards would be for converted units. I think those discussions have been multi-lateral in a sense of involving umbrella groups from the industry and a number of companies, and also just bi-lateral in terms of having discussions between TransAlta and the government. What I can say is the engagement has been great. I think the government, at least from our perspective, very much is focused on trying to permit this to occur, as Dawn said, the emission reductions can be substantial, even just some of the preliminary modelling we have done would show 40, 40 plus percent emissions reductions from the units, the converted units as compared to the existing coal fire generation on the C02 side, but the devil is in the details and what we are trying to do is make sure that the government ends up with a standard that is rigorous and reasonably tight, yet also offers the flexibility to recognize kind of the full dynamic of how the units will be expected to run over a 10 or 15 year period.

Probably moving, as Dawn said, from being more base load oriented in the initial years to being units that will be more operated like (inaudible) I think in the later years as more renewables get in. So, there is still a process to go before the rules are actually developed, but we wouldn't have preceded with the approach that we did, the decisions that we did if we didn't think our Company would be able to meet the rules that will eventually be developed by the government. So, discussions are good and we will have a lot more clarity on the actual rules, I think in the coming weeks and months.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes, we can see that as regulatory risks when you're trying to make decision.

Robert Quan

Got it. So, to put it differently though, you still need the Feds to move off of what they initially put out when they had the coal release?

John Kousinioris – Chief Legal and Compliance Officer and Corporate Secretary, TransAlta Corporation

Yes, they do need to move off, I think it was a 0.55 standard, and I think they understand that restriction and that's not just a TransAlta issue, that's an industry wide issue. So, the Federal government wouldn't of proposed putting coal to gas conversions or facilitating coal to gas conversions with a standard that would preclude it from actually happening, is a way to kind of look at it. So, we are working on trying to develop what the right standard is, and 0.55, we don't think is the right one.

Robert Quan

Got it.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

I think they would rather get us to the right standard than have us stay on coal because they couldn't get the right standard on balance.

John Kousiniouris – Chief Legal and Compliance Officer and Corporate Secretary, TransAlta Corporation

That's right.

Robert Quan

For sure. Okay. If I can just finish on Alberta Wind. Dawn, the last time you guys built out a lot of capacity, you guys did a great job in Alberta getting things done on time and actually at costs that were quite a bit below industry standard, I'm just wondering are those people still around given you haven't built quite as much since then?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes, are you kidding, they're there, they are so excited—remember what we do is we take those construction guys who love that and put them in operation and then they just wait for us to build another wind for them. So, they had built in Alberta and they went and built in Quebec and they built in New Brunswick, so yes there is a bunch of excited guys down there that will have no problem re-engaging with.

Robert Quan

Okay great. If I can continue just on that topic though, as you are thinking about bidding these projects in, are you looking at them on a stand-alone project basis versus your hurdle rate, or would you also assess the returns with potential upside to monetize those down into R&W?

Dawn Farrell- President and Chief Executive Officer, TransAlta Corporation

You know, that's probably competitive information and I'm not going to talk about on the phone.

Robert Quan

Okay, that's fine. Thank you very much.

Operator

Again, to ask your question, please press star, followed by the number one, on your telephone keypad. Your next question comes from the line of Mitchell Moth (phon). Please go ahead.

Mitchell Moth

I just wanted to get a little more insight into the coal to gas conversion. You mentioned about a lot of the sort of gas trapped in Alberta. Should we take that to mean that you think that the converted plants could potentially earn energy margin as well as capacity margin? I think significant energy margin, because I guess, these are still sort of peaking heat rates.

Dawn Farrell- President and Chief Executive Officer, TransAlta Corporation

Well, let me start and then everyone wants to jump in here. I would say first of all, when we run the models, these are not just peaking plants. There is quite a need for energy in the marketplace. So you are right to point out that if we get in a situation where there is really low gas prices, for sure there's additional margins that will come from the energy market. So, we are not looking at these as only capacity plants, we believe that there will be energy margins.

Now, Mitchell we are looking at 2022, 2023, that's a long ways off, so I wouldn't want to speculate at all about how that works. I mean, for sure when we run our models, the capacity is the lowest cost capacity that you can bring into the marketplace and under a variety of gas prices. Sometimes you are making margin in the energy and sometimes you are not, but for sure where we are covering the return of our capital through the capacity payments. Maybe Donald...

Donald Tremblay – Chief Financial Officer, TransAlta Corporation

The other factor is like the carbon tax and will all the coal plants in Alberta will convert to gas. Eventually there may be some coal plants that remain on coal and they will pay higher carbon tax, so that will also have an impact on pricing and could create more margin for the converted units. So, there is a lot of things that will happen between now and 2021, and clearly as we go we'll better understand how much margin is coming from those assets.

Dawn Farrell- President and Chief Executive Officer, TransAlta Corporation

But, the basic trend that we see is this liquid rich gas needs a place for the methane to go and our converted units are nice units for burning that methane, so that the guys that want to get more liquids out of here can do that. So, there is a real potential benefit here.

Mitchell Moth

So, in terms of, I'm not sure if I missed this on the other call on the other questions, but for the pipeline, to get the pipeline siting and pipeline access for the plant that seems to be sort of the most long-term part of the conversion, and so especially if you are talking sort of about 2021 timeframe for some of these plants to be converted, when should we start to—when do you guys need to start to build a pipeline access for it.

Dawn Farrell- President and Chief Executive Officer, TransAlta Corporation

Yes. So, the pipeline, there is two options. You know, there is a pipeline coming off the lines and there is a pipeline coming off of Trans Canada, or it's either one or the other or there is both. So we are in the process of having those discussions, and we have been in those discussions for a while now. The pipeline, you're 100 percent right. It is the gating item, for sure. You know we built, and I'm going to put a plug in here for what we expect from the regulatory agencies in Canada, but we built a 165 kilometer gas pipeline in Australia from beginning to end in 16 months. So, my view is Canadian 50 kilometer pipeline should take 16 months if we are going to compete in international world. Unfortunately, people tell us it takes about three years. So, we are actually working to that timeframe, but we'll be pushing hard to make sure Canada can start to figure out what it needs to do to start to compete on these things.

The PPA's are on these plants remember, until the need of 2020, so we don't really have an ability to go earlier. Under the current PPA's we have to stay on coal. So, we have accounted for that in our plans, which is why 2021 is our earliest year. So 2021, gives us '18, '19 and '20 to build a pipeline, which is about an average time, and it also gets us to run our PPA's out. Now, if things changed and we thought we could find a way to accelerate, we would be looking to see how to do that.

Mitchell Moth

Okay, but it sounds like you would need to start—starting the project in 2018, I guess, in a year from now basically.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes, as with everything in the world, the discussions and the regulatory process is the long part, the actual building is not that hard. So, yes, all our commercial arrangements have to be done within the next year.

Mitchell Moth

Finally, just on the pipeline CAPEX, do you expect to need project financing for any of that?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

No, the pipeline CAPEX would be covered by the pipeline companies and we would have a toll ...

Mitchell Moth

Okay.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

The toll obligation would be for about eight years.

Mitchell Moth

Okay, great. Thank you.

Operator

The next question comes from the line of Jeremy Rosenfield (phon). Please go ahead.

Jeremey Rosenfield

Yes thanks. Just a couple of follow-up questions. Just on the Australian solar project that was highlighted, Dawn you mentioned that you're, I think, far along in the process it sounds like. Can you talk about whether you are looking for an utility offtaker, a mining offtaker or some combination of one or the other, and then how that would factor into the financing decision to make on that investment, and then just as a final follow-on on that, how you think about the sort of overall investment returns that you get on investing in solar or renewable energy in Australia relative to the Alberta experience under what's coming in the RFP?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes, I would say that—so just in terms of the—the offtaker would be someone with a high credit rating, so it would be—I don't think we would have to put an additional risk metric—if the offtaker happened to be somebody with a different credit profile, we would put return risk adjustment in there for that just like we have in other parts of Australian business. But, right now what we are seeing is it's mostly the utilities that are looking for these. I haven't checked lately and I apologize if I give you the wrong information, but the direct market in Australia was trading in that sort of $85 range. So affectively people have quite a bit of motivation to buy assets rather than pay the penalty. That traded up significantly over the last period of time. So, that's really—our competitor here is utility companies paying penalties rather than owning projects, so that's our preferred offtaker.

In terms of the overall risk adjustment, we do tend to see Australia at almost the same risk as Canada. We try to finance and hedge so that we can use the Australian dollar and not get currency risk in there, but net net from a risk perspective and a return perspective, we would see those two jurisdictions as being pretty equivalent. We don't see country risk for Australia. We know the country well, we know the politicians well, we know the regulatory situation well. So, we tend to have the same kind of return expectations as you would see here.

Jeremy Rosenfield

So, just to be clear, so you're kind of agonistic in terms of investing capital either to renewable opportunities in Australia versus renewable opportunities in Alberta, in terms of the financial implications from those investments?

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Yes, that would be correct.

Jeremy Rosenfield

Okay, good. Maybe if I could just clarify something with Donald, in terms of the OESC settlement and how things were booked in Q1 results, what was the amount that was included in FFO? Was it the full amount flow through from EBITDA or was it only $11 million in FFO, and then is there anything we should expect in Q2?

Donald Tremblay – Chief Financial Officer, TransAlta Corporation

So, the whole amount is included in FFO and we're expecting to receive the actual cash receivable in Q2 or early Q3.

Jeremy Rosenfield

Okay. So, from an accounting perspective, everything is in Q1 essentially.

Donald Tremblay – Chief Financial Officer, TransAlta Corporation

Everything is in Q1, yes.

Jeremy Rosenfield

Okay, perfect. Thanks for clarifying. That's it for me.

Dawn Farrell – President and Chief Executive Officer, TransAlta Corporation

Thanks, Jeremy.

Operator

We have no further questions in the queue at this time. I will turn the call back over to the presenters.

Jaeson Jaman – Manager, Investor Relations, TransAlta Corporation

Thank you everyone and that closes off the call. My team is available for questions after the calls. Have a great day. Thank you.

Operator

Thank you to everyone for attending. This will conclude today's conference call. You may now disconnect.