

Review by McCarthy Tétrault of the TransAlta Outage Practices



Report by McCarthy Tétrault

McCarthy Tétrault's Report was prepared following a review of and reliance on of a number of TransAlta policies, practice documents and procedures in relation to regulatory compliance and trading, and interviews with TransAlta leaders and members of the Regulatory, Compliance and Trading teams.

1. Relevant AUC findings from MSA Decision
2. TransAlta's Outage Practice Documents
 - a) Outage Procedure
 - b) Outage Analysis Procedure
3. Conclusions
4. Recommendations

MSA Decision - AUC Decision 3110-D01-2015

- AUC held that TransAlta is prohibited from:
 - timing outages at PPA units for the benefit of its financial or physical portfolio position; and
 - trading on non-public “outage records”.
- Broad definition of “outage record”.
- AUC was ambiguous on some issues (e.g. materiality requirement for outage information). We took a conservative approach.

McCarthy Tétrault's Main Conclusions

1. TransAlta's Outage Practices operate within the legal requirements.
 - a) Key is that the Outage Analysis is conducted by Operations independently, with only public information and without the knowledge of Trading.
 - b) McCarthy's has recommended certain improvements to TransAlta's practices, for management's consideration. Management has agreed to these recommendations.
2. TransAlta Senior Management has demonstrated a strong commitment to compliance:
 - a) during meetings and communication in preparation for this report;
 - b) by the extensive risk assessment completed in the preparation of the Outage Practices; and
 - c) by the establishment of roles and responsibilities for TransAlta personnel designed to meet all compliance obligations.

McCarthy Tétrault's Recommendations⁵

1. The Outage Procedure should be formalized and explicitly endorsed by TransAlta Senior Management.
2. TransAlta's Outage Practice Documents should include requirements for document management and the handling of confidential information.
3. The existing Compliance training programs should incorporate mandatory training on the Outage Practice Documents.
4. The annual reviews of the Trading and Operations Compliance Programs should include reviews of the Outage Practice Documents.
5. The Outage Practice Documents should refer to the Trading and Operations Compliance Frameworks and their Investigation authorities and procedures.

Management has agreed with these recommendations.