TransAlta Corporation

Key Actions to Support Transition to Clean Power

Conference Call & Webcast Transcript

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Speakers: **Dawn Farrell**

President & Chief Executive Officer

Donald Tremblay

Chief Financial Officer

Jaeson Jaman

Manager, Investor Relations

OPERATOR:

Thank you for standing by. This is the Conference Operator. Welcome to the TransAlta Corporation Conference Call for Key Actions to Support Transition to Clean Power. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star and one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Mr. Jason Jamin, Manager, Investor Relations. Please go ahead.

JAESON JAMAN:

Thank you, Anastasia. Good morning and welcome to the TransAlta Conference Call to discuss the press release issued last night. My name is Jaeson Jaman, Manager of Investor Relations, and with me today are Dawn Farrell, President and Chief Executive Officer, and Donald Tremblay, Chief Financial Officer. A replay of the call will be available later today and the transcript will be posted to our website shortly thereafter.

All information provided during this conference call is subject to the forward-looking statement qualification which is detailed in press release and the MD&A and is incorporated for full purposes of today's call. The amounts referenced are in Canadian currency unless otherwise stated. The non-IFRS terminology used, including comparable gross margin, comparable EBITDA, comparable funds from operations, comparable free cash flow and comparable earnings, are reconciled in the MD&A.

With that, I will now turn the call over to Dawn.

DAWN FARRELL:

Thank you, Jaeson, and good morning to everyone joining us on the call. Let me start by saying that many of you know that the team here at TransAlta has worked over the past several years to build a solid portfolio of contracted renewable and gas assets. We also continue to have solid cash flows from hydro, wind, gas and coal assets here in Alberta, with PPAs on our coal and hydro assets that protect our returns until the end of 2020. Additionally, our work in 2015 to position our cost structure to deal with unprecedented low prices here in Alberta has been very successful.

Last night we announced the next stage of our plan to further strengthen the Company and ensure its competitiveness. Our decision to resize the dividend to $0.16 a share annually, move the capital structure more aggressively to the use of project debt for our contracted assets to replace upcoming corporate bond maturities and suspend the DRIP are all good decisions focused on the long-term financial success of the Company. This package of decisions allows us the full flexibility that we believe we need to work with government on a coal transition plan, realign the balance sheets of TransAlta and TransAlta Renewables, and prepare for the opportunities that will arise as coal is converted to gas and renewables here in Alberta and elsewhere.

So let me start by confirming for you that the fundamentals of our business remain strong. We did not cut this dividend because there is a problem with the fundamentals of TransAlta. Our cash is strong. The Company will generate comparable FFO in the range of 755 to 835 and free cash flow in the range of $250 million to $300 million in 2016. This will be enhanced further when South Headland comes in in 2017, as additional cash will flow into the business and we expect strong cash flows at least until the end of 2020. There is minimal impact from Alberta's climate change plan in the near term, as our returns on the coal assets are protected until the end of 2020, when the coal PPAs roll off. And we have made significant progress in strengthening our financial position, lowering costs and our increasing efficiencies in 2014 and 2015. We are currently well prepared for dealing with low power prices here in Alberta and in the Pacific Northwest.

Now, that being said, ahead of us we have slower demand growth and lower pricing environment at least until there's some recovery of oil prices and economic growth in Alberta. We have an uncertain outcome for our post 2020 cash flows in our coal assets, as we work with the Government of Alberta on the right course of action that will keep stranded costs low, keep prices stable and ensure system reliability. And finally, we have $2.2 billion worth of debt to refinance between 2017 and 2022.

So, in the context of positioning us for strength and making sure that we have tremendous flexibility, and with a laser focus on the best interests of TransAlta, the Board approved a plan to reduce our dividend, retain cash in the Company to maximize our flexibility, and to accelerate our use of project debt for over $2 billion of contracted assets that are very much suited to that market. We are being proactive and we are drawing on our experience and have an execution plan that is doable and grounded in past success.

Last year, we completed approximately $440 million of project level financing on two contracted wind assets. The factors that drove the success of those financings included stable contracts which provided solid cash flows, creditworthy counterparties, and of course the excellent operating history of the assets and the associated maintenance programs which will ensure their continued performance. We have identified the assets within our fleet that meet these same criteria. In 2016, we will raise between $400 million and $600 million of project debt for repayment of our 2017 maturities. We are preparing all of our contracted assets so that in 2017 and 2018 we will be ready to take additional proactive steps.

Now, while I have you all on this call, I'd like to take the opportunity to talk about the work we'll do in 2016 on the coal transition discussions with government. As you know, the government has signalled that transitioning from coal to gas and renewables will be done over the next 14 years and will consider stranded costs, rates, reliability, community impact and jobs. This is excellent news as it gives us the amount of time that we need to do this right.

For TransAlta, there is significant opportunity in this policy, as we have brownfield and greenfield opportunities across the province that fit the policy environment. The negotiation of transition agreements should give us the certainty required to consider further investments in expansion of our hydro assets, greenfield wind, hydro and solar opportunities, our shovel-ready combined cycle plant at Sun 7, conversion of our coal-fired generation to gas and potential co-generation expansion opportunities. So, with the measures we announced last night, and our reasonable approach to transitioning coal as we work with the government negotiator who is expected to be appointed shortly, we are preparing the company for our final transition to a clean power company.

In closing, I want to reflect back on my comments at the start of the call. Today, we've taken proactive steps to build our capital resources to allow us to manage what lies ahead for the Company from a position of strength and with tremendous flexibility. We are maximizing our financial flexibility regarding both our debt maturity profile and the upcoming opportunities that we believe will arise in Alberta as the transition takes place from coal to gas-fired and renewable power generation. I am personally confident that these are the right moves at the right time to facilitate TransAlta's transition to a competitive and leading clean power company.

We will now take your questions.

OPERATOR:

Thank you. Ladies and gentlemen, we will now begin the analyst question and answer session. Any analyst who wishes to ask a question may press star and one on their touchtone telephone. You will hear a tone acknowledging your request. Please ensure you lift the handset if you are using a speaker phone before pressing any keys. If you wish to remove yourself from the question queue, you may press star and two. Any analyst who has a question may press star and one at this time. There will be a brief pause while we compile the Q&A roster.

Thank you. Our first question today comes from Linda Ezergailis of TD Securities. Please go ahead.

LINDA EZERGAILIS:

Good morning. For the project debt you plan to issue this year, what sort of interest rates do you think you could get if you were to issue it today or based on where the forward curve is?

DONALD TREMBLAY:

That will depend on the maturity, but we probably could do something in the range of what we did last summer with the Wolfe and Melancthon project, so we're looking at something very comparable to that, in the range of 4%.

LINDA EZERGAILIS:

Okay, that's very helpful, thank you, and the debt rating agencies, have you had a discussion with them and how did that go?

DONALD TREMBLAY:

Very well. The discussion we're having today, it's very credit-enhancing, so they see that as a positive. I don't know if they will report on it, but it's not something that we discussed with them ahead of time. We communicated with them yesterday about our strategy and they see this as a credit-enhancing position, for sure.

LINDA EZERGAILIS:

Okay, that's great, thank you, and just one final clean-up question. For the coal transition negotiations, what are the bookends of timelines and when might we see some communications around how that's going over time?

DAWN FARRELL:

So, what we know today, Linda, is that they are just in the final throes of closing the negotiation with who they've picked. We don't know who they've picked, but we know that they're just doing that. The government confirmed for us that we can be confident that that decision will be public by the end of January at the latest. They have indicated that if there's no speed bumps and all goes well, they'd like to see some sort of close on agreements somewhere at the end of May, but of course it could take longer given the complexity. My view is that it's a complex industry and there's lots to consider, so I personally believe and would give you guidance that I think it would take a year.

We don't know yet if those negotiations will be confidential, under confidentiality agreements. We'll have a chance to meet with the negotiator probably early in February to get sort of the boundary conditions about how that will go, so I'd like to just defer comment on how much we can report back to you to our February conference call.

LINDA EZERGAILIS:

Great, thank you. Good luck with that.

DAWN FARRELL:

Thank you.

OPERATOR:

Our next question is from Andrew Kuske of Credit Suisse. Please go ahead.

ANDREW KUSKE:

Thank you. Good morning. I guess, if you can just give us some colour on just the dividend level that you set in on, on the $0.16, and what was the math and just the strategic logic on that, and maybe if you just expand on that just a little bit, that would be helpful as a starting point.

DAWN FARRELL:

Yes. Andrew, thanks for that question and we knew that would be sort of top of mind. I think there's lots of different ways, as you know, that people calculate what the right level of dividend is. For me, personally, what I was looking for was the maximum flexibility that I wanted to have to position the Company as we go through this transition. So, if you look at the current yield, for example, it's probably close to the average of Canadian stocks, as the share price hangs in there, but the reality is, the way I look at it, the yield portion of TransAlta is TransAlta Renewables, and really we're paying a dividend, so some cash is going back to the shareholders in terms of their returns, and then the other cash that's part of the shareholder return is being used to maximize the opportunity that we see here ahead of us and to make sure we have maximum flexibility for the future.

When we look ahead, we see we've got $2 billion worth of opportunities here to refinance using our contracted assets, that's going to maximize flexibility; we see tremendous opportunities to transition our coal fleet and to grow here in Alberta and grow outside of Alberta. A lot of that depends on how these negotiations go, of course, because that will determine whether or not this market's a good market for investment, and the reality is the financial flexibility that we'll have with that cash in the Company, I think allows us to maximize the opportunities to create value in the Company. So, it was really more picking a level so that we could maximize our opportunity to create value.

ANDREW KUSKE:

Okay, that's helpful. Then, I guess, at any point in time were you thinking about the TA dividend effectively being at the level of dividends flowing through from R&W, your ownership interest in RNW.

DAWN FARRELL:

Yes, I mean, this dividend effectively is about half. So, effectively, if you go into RNW you get the full dividend for the contracted assets that are in there, and then as we flow that money back into TransAlta, we're retaining that money for value creation as we go forward through our transition.

ANDREW KUSKE:

Okay, that's very helpful. Thank you.

OPERATOR:

Our next question is from Rob Hope of Macquarie. Please go ahead.

ROBERT HOPE:

Yes, thank you and good morning. Just a question about some of your prior comments. You did mention that the coal transition negotiations could take a year and that would inform your view whether or not Alberta would be a good environment to invest in, so would that imply that we should see relatively little project development in Alberta over the next year for yourselves?

DAWN FARRELL:

I mean, for sure, there's options that we're working on to ensure that we have optionality, but, yes, you wouldn't see us announcing major investments here in the province until we get much more certainty around what that market's going to look like and how fair the deal will be relative to our coal.

ROBERT HOPE:

All right, that's helpful, and then just a follow up. In prior years, you've given some guidance on your long-term debt reduction initiatives. Do you have a goal of how much you want to reduce overall debt in 2016, and how you get there and would that include some additional dropdowns to RNW?

DAWN FARRELL:

No, we don't really. I mean, frankly, what I'd like to do is see how much of the $2 billion of contracted assets we can use to replace the bonds with, so we want to really first lean into that and do that on an accelerated basis where we can. We don't see using dropdowns in TransAlta at this point for debt reduction. We finished that last year. If we did any further dropdowns into TransAlta Renewables, it would be because we're growing our renewables, and in the short term, that would likely be growth projects outside of Alberta, if we find them. In the longer term, if the Alberta market really does shape up to be a good market for investment, you would see us develop projects in TransAlta and then transfer them in to TransAlta Renewables, but we wouldn't see TransAlta Renewables for debt reduction at this time.

ROBERT HOPE:

Thank you.

DONALD TREMBLAY:

Just to add a little bit to this, when you look at 2016, the amount of cash that we'll generate, the amount of dividend that we'll still pay and the construction of South Headland, we don't expect a significant amount of debt reduction using our cash flow in 2016.

DAWN FARRELL:

Yes, 2016 cash flow is still for growth, which is Port Hedland, or South Hedland.

ROBERT HOPE:

Thank you.

OPERATOR:

Our next question is from Paul Lechem of CIBC. Please go ahead.

PAUL LECHEM:

Hi, thank you, good morning. One of the headwinds to the debt reduction in 2015 has been your US denominated debt, so I was just wondering—and maybe this is a bit of a belated question, but given that that's been moving against you in terms of the debt load, any plans to do anything with that debt in 2016, or what is the plan for the currency impact of the debt?

DONALD TREMBLAY:

So all of our debt in US dollars, Paul, is fully hedged. Some of it is hedged through financial instruments and some of it is hedged with the assets in US dollars that we own. The debt maturity, for example, that we have in 2017, we have a $400 million debt maturity in 2017. All that $400 million is hedged with a financial instrument, so the strengthening of the US dollar have no impact on that piece of paper, and most of the 2018 maturity is also hedged with a financial instrument, as well, so even though on the face of the balance sheet, our US dollar debt is increasing with the strengthening of the US dollar, in fact, we're fully hedged for that.

PAUL LECHEM:

Would the plan be to refinance that in Canadian dollars?

DONALD TREMBLAY:

There may be some that will be refinanced in Canadian dollars, because currently we have higher debt levels in US dollars versus our US dollar assets, but there will be some in US dollars and some in Canadian dollars.

PAUL LECHEM:

Got you. Can you remind me, your definition of comparable free cash flow, does that include the dividends, as well? Is that after payment of dividends?

DONALD TREMBLAY:

Sorry, I missed the question, Paul. Could you repeat?

PAUL LECHEM:

Your definition, your comparable free cash flow, you give guidance for comparable free cash flow.

DONALD TREMBLAY:

Yes, that's before dividend.

PAUL LECHEM:

Before dividend.

DONALD TREMBLAY:

Yes.

PAUL LECHEM:

Okay. Before pref dividends, as well?

DONALD TREMBLAY:

No, after the pref dividend.

PAUL LECHEM:

Okay, all right.

DONALD TREMBLAY:

So, it's cash available for common shareholders and growth.

DAWN FARRELL:

Yes, it's after everything, capital expenditures, non-controlling interest, interest on the debt, the preferred share interest, and so it's the cash that's left over for the equity holders.

PAUL LECHEM:

I got you, thank you. Okay, that's it for me. Thank you.

DONALD TREMBLAY:

Thank you, Paul.

OPERATOR:

Our next question is from Charles Fishman of Morningstar Investment Research. Please go ahead.

CHARLES FISHMAN:

Dawn, you indicated that the negotiator had not been appointed. Could you talk a little about that process? Who appoints that person?

DAWN FARRELL:

Well, it's really the government that appoints the person, so they're the ones that are doing the hiring, and from what we understand from talking to them—and it's really the people in the Department of Energy and the Premier's Office that are working on that appointment. From what we understand, they're very close and that we'll be pleased because they've taken the time choose a high-quality individual who has lots of experience in our sector.

CHARLES FISHMAN:

So, potentially, it could be a regulator, it could be somebody outside of government or it could be somebody in the Premier's Office.

DAWN FARRELL:

Yes, listen, we don't know. I can't speculate.

CHARLES FISHMAN:

Okay.

DAWN FARRELL:

Honestly, if I knew, I probably wouldn't be able to tell you, but I don't know.

CHARLES FISHMAN:

The timing of this you said is early February.

DAWN FARRELL:

No, the timing we believe is imminent, we should know definitely by the end of January who that is, and I would expect to be in initial meetings early in February.

CHARLES FISHMAN:

Okay, and then on a related question, the stranded cost investment, is the basis for that in the CCR regulation?

DAWN FARRELL:

Well, remember, there is no carbon regulation yet. There's a policy that was put forward by—policy recommendation by Leach and there's a direction by government to transition out of greenhouse gases from coal by 2030, and what the government told us is that the combination of—to see that policy direction by Leach as that, direction, it has not been accepted yet, and this negotiator will work with us to sort of finalize what that looks like practically. What they've said to us is that the practical execution of the carbon policy for the electricity sector has to consider minimizing stranded costs, minimizing price disruption for consumers, and as well system reliability, and as well they want to make sure that there's good transition for the communities, because there's over 35 communities in Alberta affected by the policy. So that's what the negotiator is being hired to do, is to make what that determination is and work with us on that.

CHARLES FISHMAN:

Okay, thank you. Your team is playing a tough hand pretty well. Good luck.

DAWN FARRELL:

Well, thank you.

OPERATOR:

Our next question is from Robert Kwan of RBC. Please go ahead.

ROBERT KWAN:

Good morning. Just as part of the Q3 release, when you talked about revisiting the dividend level, you talked about the Board may revisit it if there were negative changes associated with climate change policy or persistent low power prices. So, now that you've pulled the trigger on that, can you just talk about where the climate change policy was negative relative to what you thought going in, or is it that you do expect the power price deck to be kind of where we are right now, in the mid-20s, and then how that then relates to the 2016 guidance?

DAWN FARRELL:

Yes. So I would say on the power prices, I'm not concerned about that because really, Robert, how power prices escalate here in Alberta will depend a lot on what goes on with oil and gas, and I think we could have a little bit lower for longer because it takes longer for the commodity markets to straighten out, but just the passage of time and very little investment in generation will raise those power prices, so you see the forward curve in 2018 and 2019 up to reflect that and to reflect some of this carbon tax.

I think where we decided that we had to get greater financial flexibility in light of the discussions that we're about to have is that we really don't know what the outcome of these negotiations will be. We've been given a policy direction through the Leach panel and we've been given good assurances, which I'm pleased with, around a 14-year transition, but we just have greater uncertainty as to what our 2021 to 2030 cash flows look like out of our coal fleet, and, frankly, I think it's hard to know what prices will look like here in Alberta, when you think about the desire to bring on more renewables sooner. So, it was really the uncertainty more than actual negativity that we calculated in our models, so that's what caused us to want to have the ability to have maximum flexibility as we go through this period.

ROBERT KWAN:

That's great, and if I can just then ask about capital structure and funding. So, you've mentioned no equity. Does that include preferred share? Then, the second part of the question is have you run all of this by the rating agencies and do you see there being any wiggle room to increase leverage in the short term maybe to buy back some of your existing debt before taking that out with incremental project financing?

DONALD TREMBLAY:

So, clearly, there will be some timing discussion or timing events during 2016, 2018, as we roll forward that plan, Robert. We had a lot of discussion with the rating agencies over the last year and they understand our plan, and we will remain in constant communication with them. As I mentioned before, they really see that announcement as a credit positive, so for them we're going in the right direction, we're prudent, and we're looking for long-term here. It's not a short-term decision, we're looking well ahead of us and we have a plan for the next seven years, and I think that will be seen positively by them.

DAWN FARRELL:

Yes, so I think the answer is yes and I think the answer is we're looking at those opportunities as well to ensure that the team is really focused on how do you get ahead of it with the $2 billion worth of contracted assets that we have so that we can accelerate our opportunities on the debt side and ensure that we reduce negative carry, so we'll be looking at everything that you're thinking about there.

ROBERT KWAN:

That's great, and just coming back to the no equity, you've mentioned that RNW would not be used to raise equity other than for growth…

DAWN FARRELL:

Right.

ROBERT KWAN:

… but preferred shares or hybrids, is that kind of no equity full-stop across the board?

DAWN FARRELL:

Yes, we don't see the need for that right now, we've done all we're going to do. The plan that we laid out today, it gives you the foundational pieces that we think make sense.

ROBERT KWAN:

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

OPERATOR:

As a reminder, any analyst who has a question may press star and one at this time. The next question is from Jeremy Rosenfield of Industrial Alliance Securities. Please go ahead.

JEREMY ROSENFIELD:

Yes, thanks, just a few questions. I think the first one, off the top, what's the rationale for keeping the dividend at all? I understand that you want to maintain total shareholder return and return capital to shareholders, but wouldn't that accelerate your ability to transition if you maintained even more cash within the Company?

DAWN FARRELL:

You know, we certainly considered that case, clearly, and I think we decided that in the Canadian context and the Canadian equity markets there's just a lot of portfolio managers and holders of securities that require some dividend yield in order to hold the stock and we didn't want to reduce our opportunity for people to want to demand a hold for TransAlta, so that was in the end the reason that we kept what we did. We also wanted to pick a level that was sustainable through all cycles and through all eventualities that we might face. So, that's how we triangulated that number.

JEREMY ROSENFIELD:

Okay. Then, just thinking about where the shares are right now, have you thought about potentially a full 180 degrees and introducing something like a normal course issuer bid or executing a share buyback to take advantage of the share price, recognizing of course the give and take between where the stock price is right now and your capital structure and limitations on that side?

DAWN FARRELL:

Yes, clearly, we believe—very clearly—when we look at the intrinsic value of the cash flow to the Company that the uncertainty that's been handed to us, effectively, because it's tough to know what the cash flows will be in the coal, has the Company trading below its intrinsic value. So, we do know that, as we go forward and we're thinking about either acquisitions or we're thinking about growth, that currently today our stock is probably the highest value growth that we can find, so we'll be using share buyback as the metric that you have to achieve, and to the extent that there's surplus cash available as we generate our strategy and we don't see the market responding to what we're doing, that's certainly going to be on the table.

JEREMY ROSENFIELD:

I guess a follow on to that is potentially being able to accelerate share buybacks in the future by way of asset sales, is that something that you might consider, and here I'm thinking of not dropdowns to RNW but other asset sales that might be interesting for third parties.

DAWN FARRELL:

We always look at that. I mean, we always look at whether or not we've got good returns on our assets. I think the thing, though, that I would just reflect on is when we look at our cash return on book equity or cash return on capital, it's the highest in the industry, so our group of assets, our fundamental underlying assets are highly profitable. I've been in the business for 30 years; finding profitable generation assets with long-term contracts that are good operating assets that have a future is probably the toughest thing you can imagine. So, we don't have very many assets—or we don't really have any assets where I think the returns are insufficient and it might be better to get the cash and buy back shares, but we do those kinds of calculations and we would make those decisions if we saw those opportunities.

JEREMY ROSENFIELD:

Okay, and then just one final question on the transition away from coal and potential negotiations with the government. Have you thought at all or have you any sort of idea as to what form of compensation the government may be inclined to provide to coal power owners, including yourself, you know, in terms of either cash payments or new contracts, although recognizing that they don't really want to upset the current market structure? So, any thoughts on that?

DAWN FARRELL:

No, you know, I'm sure everybody in the industry has lots of ideas about what they want to do, but I would say we have zero guidance on that. We have the parameters of no rate spikes, reliability and minimizing stranded costs, that's all we have at this point, and I think until we sit down and really roll up our sleeves with these people, there's really nothing I should speculate on, because I would just be misleading you and I don't really know at this point beyond that.

JEREMY ROSENFIELD:

Okay, great, I appreciate it and I look forward to hopefully transparency in the negotiation process. Thanks.

OPERATOR:

We have a follow-up question from Linda Ezergailis from TD Securities. Please go ahead.

LINDA EZERGAILIS:

Thank you. In terms of your RNW ownership level, can you comment on the range of level that you think is appropriate and what might cause you to potentially decrease your interest over time from a secondary offering, potentially?

DAWN FARRELL:

Yes, so, Linda, we just sent out a press release I think last week where we outlined all of the accomplishments in 2015, and there we talked about our range being from 60 to 80%. My view is for TransAlta shareholders, a higher ownership of Renewables is better, so I wouldn't see us dropping below that. I think Renewables, as you know, is a financing vehicle and it serves its purpose on that side of it, but we see it—I mean, TransAlta effectively becomes TransAlta Renewables by 2030, or TransAlta Clean by 2030, because effectively we'll be gas and renewables by that timeframe, so it's a pretty strategic component of our plan, and as you know, the Management Team here, all else being equal, we love long-term contracted assets as something that we see as a high percentage of our portfolio, because we think they provide the kind of certainty that you need to own a publicly traded vehicle.

LINDA EZERGAILIS:

Great. Thank you.

OPERATOR:

This concludes the time allocated for the analyst Q&A portion of today's call. We will now take questions from members of the media. As a reminder, please press star and one on your touchtone phone to ask a question. If you wish to remove yourself from the question queue, press star and two. We will pause for a moment as we compile the Q&A roster.

Our first question today is from Sean McCarthy of the Globe and Mail. Please go ahead.

SHAWN MCCARTHY:
Good morning, Dawn.

DAWN FARRELL:
Good morning, Shawn.

SHAWN MCCARTHY:
I wonder, looking forward, whether you have any concerns that some of the answers that are going to appear on the horizon in Alberta will be bringing power in from out of the province, and there's a lot of talk of expanding the grid, an interprovincial grid, and that perhaps the strategy laid down by the province to protect stranded assets but also keep prices down to consumers may not be consistent.

DAWN FARRELL:
I don't know. I mean, I think, first of all, expanding grids between provinces, generally it's a five- to 10-year kind of timeframe it takes to do that, so I think in the short-term horizon that we're dealing with, I don think that that will be a big consideration. When I think about how people are thinking about Alberta and protecting the competitiveness of Alberta and ensuring that we grow the province in a strong way, I think they would tend to weigh more heavily towards investments in the province than investments that take place in other provinces and create value there, on average, so I'm not concerned about that at this point, I haven't heard anything on it.

SHAWN MCCARTHY:

Isn't that a bit of a problem in the Canadian electricity sector, that all the provinces see it as a way to generate investment in the province, as a way of—as opposed to a way of getting the best and cheapest electricity into the province? I'm sure you would disagree with that but …

DAWN FARRELL:

Yes, no, I mean I spent a lot of time looking at the competitiveness of electricity resources across Canada and I do think each region has more competitive resources—has competitive resources for their economy. As you know, British Columbia and Quebec have the hydro, Ontario has the nuclear and Alberta's got natural gas, like very low cost natural gas, that potentially could be stranded here that needs to be used to make electricity. So, I do think that the interties create value and I think expanding the interties over time does create more competitiveness, but I think, on average, even with people focusing on the resources they can develop—we've developed in Canada, at least in Quebec, Ontario, Saskatchewan, Manitoba, Alberta and British Columbia, some really unbelievable low-cost resources. Alberta's got a lot of wind potential, a lot of solar potential and a lot of low-cost co-generation and natural gas. So, I think, on average, we've done a fairly good job in Canada of keeping the cost low.

SHAWN MCCARTHY:

Thank you.

OPERATOR:

Our next question is from Ian Bickis of the Canadian Press. Please go ahead.

IAN BICKIS:

Yes, good morning. There's been a lot of speculation as to what kind of foregone revenue the power producers will have. Can you give any indication as to what kind of compensation you might be looking for or what costs will be if you are forced to close all power plants by 2030, all coal plants?

DAWN FARRELL:

No, I really can't. I mean, there's some fundamental things that I think make sense. Like, we like to run our plants to the end of their lives, they're all able to run to 2050—for 50 years. So, it really—you know, I think it really depends on how the negotiator frames those discussions. So I think, again, I'd just be speculating at this point.

IAN BICKIS:

Okay. In terms of measures to avoid unnecessarily stranding assets, are there specific things you'll be looking for or ways to avoid—just measures to avoid unnecessary stranded assets?

DAWN FARRELL:

In terms—say that, can you ask that question again?

IAN BICKIS:

Just in terms of—like the province has said they're going to try and avoid unnecessarily stranding assets.

DAWN FARRELL:

Right.

IAN BICKIS:

What will you be looking for in the negotiations to achieve that?

DAWN FARRELL:

Well, I mean, probably the easiest measure of—you strand assets by closing plants early with lots of capital left in them and not utilizing that capital for the future, right?

IAN BICKIS:

Correct.

DAWN FARRELL:

So, the earlier you want to close, the more you strand. So I think, you know, I think if you're trying to minimize that and you're trying to minimize transition payments, and trying to minimize the impact on communities and give people time to adjust, usually what that means is that you try to run the assets for as long as you can to get cash out of them to recover that capital. That would be about the only thing I could add to the conversation at this point.

IAN BICKIS:

So, will you be pushing for a later date than 2030? Is there any sense of flexibility on that?

DAWN FARRELL:

Remember, we have assets that go from now until 2030, so, no, I don't think you would get a later date than 2030.

IAN BICKIS:

Okay. Thank you.

OPERATOR:

As a reminder, members of the media may press star and one in order to ask a question. The next question is from Jeremy Van Loon of Bloomberg News. Please go ahead.

JEREMY VAN LOON:

Good morning, Dawn, just a quick question. You've spoken in the past about how, if the province were to accelerate the transition to renewables too quickly, you'd end up with a lot of gas, and I'm just wondering, as you see the prices of projects and the technology at the moment, what kind of premium would you need to see from the government as they roll out their preferential pricing regime for renewables, in order to have a healthier mix of gas and renewables?

DAWN FARRELL:

Yes, so I would say, Jeremy—thank you for the question. In the way that we're thinking about this transition, frankly, going back to minimizing stranded costs, if you want to minimize stranded costs you can effectively use the coal to back up the renewables and then you can bring gas on as it comes. I think the challenge that we have today is the market's trading at $30. I would have said, you know, six months ago that new plants would require about $65. The challenge we now have is the Canadian dollar has dropped so much, and as you know, a lot of what's required to build generation in Canada is equipment that's coming from outside of Canada. So, I think the actual cost to replace the fleet is going up because of the Canadian dollar. I think, you know, for gas it's going to be north of $70 and for wind it's going to be north of $80 for sure, and that has to be factored into the discussions as we go forward.

JEREMY VAN LOON:

Thanks.

OPERATOR:

This concludes the time allocated for questions on today's call. You may now disconnect your lines. The conference is concluded. Thank you for participating and have a pleasant day.