



TransAlta Corporation

Transition Update Conference Call & Webcast

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President & Chief Executive Officer

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Chief Financial Officer

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Chief Legal and Compliance Officer

OPERATOR:

Welcome to the TransAlta Corporation Transition Update Conference Call and Webcast. 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, simply press star, then one on your touchtone phone. Should anyone need assistance during the conference call, they may signal an Operator by pressing star and zero on their telephone.

At this time, I would like to turn the conference over to Jaeson Jaman, Manager, Investor Relations. Please go ahead, Mr. Jaman.

JAESON JAMAN:

Thank you, Operator. Good afternoon and welcome to the TransAlta Transition Update 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, Wayne Collins, Executive Vice President, Coal and Mining Operations, and Dean Luciuk, Managing Director of Business Development.

The call today is webcast and I invite those listening on the phone to view the supporting slides which are available on our website. 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 set out in the slide deck.

On today's call, Dawn will provide an overview of the recent changes in our industry, comments on our transition strategy, and how this will drive new opportunities. After these prepared remarks, we will open the call for your questions.

I'll now turn the call over to Dawn.

DAWN FARRELL:

Thanks, Jaeson, and welcome everyone who's joined our call today. Listen folks, I'm going to apologize in advance. We have a lot to go through here with our script and our slides. We tried to cut it back as much as we could, but the team wasn't able to wrestle me to the ground, because I really wanted to tell you everything that I want to tell you today, so lots to go through, but we are going to stay on the line for as long as you want and answer questions, so we're treating this a little bit like a mini Investor Day. Of course, we'll be out to do a bigger Investor Day sometime in March.

Really, I want to start by saying that last week really marked a turning point for the Alberta power sector. The government of Alberta announced several, what we say, are very impactful and far-reaching agreements that provide significant clarity about proposed changes to transition Alberta's electric system to a low-carbon economy.

Today, we want to show you how we expect these changes to transform our Alberta business strategy here at TransAlta, and we're going to also update you on some of the progress on our repositioning of our capital structure, because, of course, they go hand-in-hand.

Last week's announcements included first—and they're not really in order—but on Wednesday of last week, the Alberta government announced it would move away from the current Alberta energy-only electricity market and create a capacity market in which both energy and capacity will be priced in competitive auctions. Of course this is critically important as they move to bring more renewables into the market here.

Second, on Thursday the Alberta government and TransAlta announced a binding off-coal agreement that provides compensation for the surrounded value on the K3G3 and Sheerness coal plants that had (inaudible 03:31) beyond 2030.

Third, also on Thursday, we signed a Memorandum of Understanding with the Alberta government. Among other things, the MOU will lead to a policy framework that allows us to complete coal-to-gas conversions on many of our existing coal plants. These converted plants will serve Alberta under the new capacity market. The MOU also acknowledges our commitment to collaborate on transitioning our existing renewable assets so they can operate on a level playing field in the new capacity market. We'll also seek to find mechanisms that support larger, longer-lived hydro projects here in Alberta, and you're

going to hear a lot in this call about our new Brazeau project, and we're going to take you through some of the detail on what we're working on there.

The fourth event actually happened earlier in the week on Monday, and it was the Federal government's announcement to create gas and coal-to-gas regulations that support the transition to a low-carbon generation across Canada.

These announcements, we believe, reflect the willingness of both the Federal and the provincial government to listen to our concerns. To reference a strategic theme I mentioned throughout 2016, last week balance did indeed win. Our work with both the Federal and the Provincial governments has shown that both governments understand the importance of investor confidence as a foundation for a strong economy.

These landmark agreements demonstrate a belief that investor confidence is critical to attracting new investment capital, and also for reinvesting existing cash flows into future opportunities. As a package, we believe these agreements have restored investor confidence in Alberta, and give us both the clarity and the confidence to achieve a successful transition to a low-carbon economy here in the Alberta electricity market.

Before I go on, I really, very much want to thank many of our investors who showed their patience over the last year as we worked through these agreements. There is still a lot of work to do, but I'm confident these changes allow our Alberta business to now generate the returns needed to support our capital structure, so this has all been excellent news for TransAlta and its shareholders.

So just moving on, we continue to believe it's possible to create a system that realizes the goal of economic growth, competition, and innovation, while, at the same time, moving to a low-carbon economy, and we believe that those who do this successfully will win in the longer term.

Last year, we set out a goal to become Canada's leading clean power Company by 2030. Well, I can say today, this is no longer a goal. It's an absolute necessity. Canada and Alberta have chosen to price carbon. They've laid out a new path to create incentives that minimizes its use. Carbon is now a factor of production like labor, capital, or any other input. It's expensive and it's getting more expensive,

as evidenced by the Federal government's intentions to price carbon at \$50 a tonne by 2022. For investors to have confidence in the returns generated in our business, we must find innovative and reliable ways to reduce carbon and electricity generation, while keeping prices low and stable for our customers. This is a strategic imperative. It's not a dream.

To succeed, we must utilize TransAlta's advantages, which include taking advantage of our scale and our low costs; continuing to lead in clean energy investments; growing our diversified asset base, which generates strong cash flows; developing our brownfield expansion opportunities; and finally, relying on our experience, skilled, and innovative workforce to execute our longer and near-term strategies and goals.

As I've mentioned to all of you on our calls, one of our top priorities in 2016 was to secure a mutually beneficial coal transition agreement with the Alberta government. The off-coal agreement and the MOU, together, achieved our goal. Under the off-coal agreement, TransAlta will receive a total of \$524 million, comprised of annual cash payments of approximately \$37.4 million net to TransAlta starting in 2017 and ending in 2030. The annual cash payments are supported by the credit of the Alberta government.

In return, we've agreed to maintain a strong Alberta Company that supports our employees, communities, and continues to invest in the Province. This agreement will allow us to raise capital to reduce the long-term debt associated with our newer coal plants. This is significant for shareholders who will see improved cash flows that support TransAlta's ability to refinance our existing debt maturities, as we refocus the business.

I also referred earlier to the Memorandum of Understanding that we signed with the Alberta government. This commits all parties to continue working on the development of a policy framework to invest in Alberta's clean energy future, and to advance the objectives of the Alberta Climate Leadership Plan. An important part of this goal is to advance coal-to-gas conversions on some of the plants in our coal fleet. Realizing the economic and environmental responsible goals of this kind of investment will require regulatory cooperation with both the Provincial and the Federal government.

As announced, TransAlta is committed to converting Sundance Units 3 to 6, and Keephills 1 and 2 to gas-fired generation before 2023, once that framework is developed. Now, our teams at TransAlta have reviewed the economics of coal-to-gas conversions at our Alberta coal facilities. Natural gas is an important transition fuel in Alberta, and must be used until large-scale storage options are available to support renewable generation.

On Slide 8, you can see the advantages of coal conversions versus continuing to invest in our existing coal fleet. First, we can utilize existing sites and infrastructure to realize real upfront time and money savings.

Second, operating a plant converted to natural gas requires about 40% to 50% lower operating and sustaining capital costs, and will reduce carbon costs, our new factor of productions, by 65%.

Third, a staff conversion requires only about 60 days to change over from coal burners to gas burners, and this changeover can add up to 15 years of extended plant life.

Fourth, a gas-converted plant has lower minimum stability requirement than the plant it's replacing. This provides added flexibility. This, the gas-converted plant, provides substantial reductions in emissions of CO₂, NO_x, and Mercury and SO_x. With gas prices being low, and expected to stay low given the abundance of natural gas, the cost structure of a coal-to-gas converted unit is better than the cost structure of a coal plant. Gas beats coal under the new carbon tax rules here in Alberta.

The Alberta system will likely attract new gas powered generation over the next decade or so, but a mix of new plants and coal-to-gas converted plants will create lower prices for consumers over the longer run. A key benefit of coal-to-gas conversion is the savings on sustaining capital, which we believe will be in the range of 40% to 50% lower than coal, so on average across our existing Alberta coal fleet, we spend about \$200 million a year on sustaining capital. Reducing this spend by almost half means we have capital that can be diverted elsewhere.

We have undertaken significant work on engineering, regulatory conditions, financial implications, timing, and execution issues. Over the next 18 months, as we work out final regulatory details and understand better the structure of the newly announced capacity market, we'll make final decisions on

timing and sequencing. The good news for investors is that many of our coal plants can now likely run economically for 10 to 15 more years at the end of their lives on coal.

We've also done early work that compares coal-to-gas conversion against our Sundance 7 combined-cycle gas plant. Today, we believe that investing in new, expensive, combined-cycle plants will be riskier than investing in coal-to-gas conversions because of the capital required and the extended timeframe required to construct a new plant. However, we cannot preclude the possibility that at some time the market may require our Sundance 7 plant. Time will tell if the newly announced capacity market will provide the risk profile for new plants.

Technology is changing quickly in our sector. Shorter timeframes to recover capital is economically advantageous. This is a strong advantage for investing in, today, the coal-to-gas conversions that we're thinking of. Now coal-to-gas conversions do have some disadvantages, including their ramping and heat rates. Also, under the developing Federal rules, these conversions must be phased out by 2045, but they will have a place in the market here in Alberta, and our depreciated capital base makes our fleet a leading contender for providing capacity to the market, as renewables are phased in.

Now, as a result of the announcement last week, we are moving to a system where there will be a price on two products separately; capacity and energy. This system will benefit generation that does not emit carbon. The system will also call for 5,000 megawatts of new renewable generation to be under long-term contract by 2030. The current energy-only market, which is supported by PPAs on a large number of coal plants, will work until the capacity market is in place, even with the planned call for new renewable generation that is set for 2019.

It's no secret though, renewables will reduce pricing in the market and make existing generation unprofitable. By separating payments into capacity for the capital required to back up the systems, and energy for the marginal costs incurred when supplying hour-by-hour, the Province has taken on the issue we were the most worried about. How would generators be paid for the capital that is required to back up the systems if prices are too low? A capacity market will generate sufficient revenue to cover operating costs and a return on, and of, capital, with a capacity that will back up the market.

We are also reassured that the government has stepped up and committed that incumbent renewable generation will not be economically harmed with the adoption of the capacity market. We don't have the details on this yet, but we look forward to working collaboratively with the government to ensure our prior investments continue to earn proper returns. Now, as I said, we're moving to a market structure that would call for two products, capacity and energy, and generation that does not emit CO₂ will benefit in this structure.

Let me now turn and talk, in a little bit of detail, about our Brazeau project. Our Brazeau project is a perfect investment to meet the needs of a capacity market. It also fits very well with government's plan to bring on 5,000 megawatts of new renewable generation by 2030, and as an aside, this project has been on the books at TransAlta since the early '60s. It was the next project in our hydro fleet, and it was set aside when coal became economic in Alberta, so the world turns around in a big circle and here we are back to this project.

Today, we are the hydro sector leader in Alberta, with 834 megawatts of capacity across 17 units. The proposed pumped-storage project at Brazeau will add between 600 and 900 megawatts of capacity to this site, bringing the total capacity for Brazeau to between 955 and 1,255 megawatts. We have done preliminary engineering and water studies on this project, and we will start early stakeholder consultations to ensure we are accounting for all the community, environmental, and First Nation's concern.

Our current capital investment is estimated to be in the range of \$1.8 billion to \$2.5 billion, depending on the site of the project, and, of course, as we do the more detailed engineering, the cost estimate is likely to change and we'll refine that estimate over time. And, of course, we'll know what the cost will be before we make the final investment. Our current 355 megawatt Brazeau facility is showing here on this slide. The powerhouse is shown at the bottom of the image, while the upper portion of the image is the existing power canal for the facility, which will support the pumped-storage project.

The image on Slide 13 is an overview of the proposed expansion. The pumped-storage project essentially utilizes the existing reservoirs, and an existing dry river bed as a battery. Today, the dry river bed is used as a spillway, but it's rarely used. On this map, you can see that the spillway runs from the upper main reservoir along the east side of the existing canal down to where the existing

powerhouse is. That spillway is approximately 20 kilometres long and it's about 300 feet deep. The Brazeau expansion project would involve installing three (inaudible 17:25) and pump turbines at the location labeled 1 on the map on the screen. A new dam to be installed in the spillway just down from the turbines is at the point labeled number 2, so you can see there's no additional flooding with this project, and we're using an existing river, so that's a huge advantage.

Once operational, the facility would flow water into the spillway during high load periods or low supply periods, and we'd generate electricity. Then, during periods of decreased load, or high supply periods, water would be pumped out of the spillway back up into the existing canal. In that case, we'd use electricity. The slide summarizes the key benefits of the Brazeau project. First, the plant enjoys the economics of brownfield expansion, because it uses an existing site and infrastructure. Because Brazeau is already connected to transmission lines, no new lines will be needed to the site. We only need to upgrade the existing lines.

Second, pump storage can provide the support necessary to maintain grid reliability, as renewable wind projects supply more power in Alberta's grid. Pump storage matches the intermittency of wind power. Brazeau will allow us to ramp up power quickly when it's needed and stop generating quickly when it's not.

Third, this is a highly flexible resource that can start generating very quickly, faster than any type of gas-peaking plant, and the turbine technology allows us to go from generating to pumping within minutes.

Fourth, hydro assets are the longest lived of all electricity generating assets. We think of these facilities as perpetual assets. Hydro assets built in 1911 in our fleet are still running strong today.

The next step to advance the Brazeau project include completion of the preliminary engineering, commencing engagement with stakeholders directly impacted by the construction of the project, working with government on mechanisms to complete our long-term contracts, and to begin the work on project financing. We believe this project is an ideal candidate for the infrastructure bank being developed by the Federal government, and low-cost financing will make the project more competitive, and will lower prices and costs for consumers, and there will be no carbon emissions. Our goal is to

keep project development costs low until we've secured a commitment to a contract and have financing alternatives arranged, and we expect to have this in place by the end of 2017.

Now, in addition to the development of pumped-hydro at Brazeau, we have approximately 300 megawatts of other renewable opportunities in Alberta that can be developed to meet increased demand for power. This includes an inventory of excellent wind sites, with significant wind data, and strong land ownership relationships. Specifically, we have several wind sites in the southwest region of the Province that are attractive for development, because they enjoy access to existing transmissions.

Additionally, as we've mentioned before, the Cowley site in southern Alberta is ready to be repowering. Work to build out this renewable pipeline will continue so that we will be competitively positioned to take part in future procurement caused by the ISO, and looking out further into the future, we are fortunate that our existing wind sites happen to be located in one of the highest solar resource areas in the Province. These sites could be future candidates for co-locating solar assets with existing wind, but the development of this opportunity will depend on continuing reductions in solar energy costs to make those projects economically feasible.

I'm just going to stop for now and turn it over to Donald who's going to update you on the work we've been doing on our financing plan.

DONALD TREMBLAY:

Thank you, Dawn. My comments today will be brief. I just want to take this opportunity to touch base and remind everyone where we sit again our goal for 2016 and our plan for 2017, 2018, given the announcement we have made over the last two weeks.

First, we are on track to achieve our goal of \$400 million to \$600 million of project financing in 2016. As I have mentioned before, there is a robust market for financing high-quality assets with solid contracts.

Second, our liquidity at the end of Q3 will be \$1.7—was \$1.7 billion, and we anticipate a higher level of liquidity to be available at year end. This liquidity will be used to repay debt maturing in May, 2017, and also fund the remaining capital requirement for our South Hedland project in the first half of 2017. As

we have mentioned before, our goal is to meet all of our targeted financial ratio in 2018, when South Hedland is online and contributing FFO and EBITDA on a full-year basis.

The announcement over the last two weeks, including the K1 arbitration decisions, were really good news and have generated a lot of momentum for the Company. The implementation of the capacity market in Alberta will add revenue certainty and stability to our existing portfolio in the Province, and the probable life expansion of our existing asset from coal-to-gas conversion will provide us with more flexibility in financing our existing debt.

As Dawn mentioned, the Alberta government's support for the development of policy framework to recognize the value of zero carbon emissions from existing wind and hydro assets in the Province, as well as mechanism to ensure existing renewable assets are not negatively impact by the capacity market is also very positive for us. Additionally, the \$524 million payment coming over the next 14 year from the off-coal agreement, backed by the financial strength of the Alberta government, will also contribute positively to the refinancing of our debt maturing over the next few years.

Finally, having better visibility on our future will help us to more efficiently allocate our capital to the existing assets, and continue our focus on improving the performance of our portfolio over the next three to five years. This transformation is well underway, and we have made significant progress in this area over the last few years. We now need to ensure this momentum continues, or even better, accelerate. As I mentioned earlier, the change announced over the past week were significant, and clearly attribute that will enhance our ability to access the capital market, and to fund our transition to a leading clean power Company.

I will now turn the call back to Dawn for the closing remarks.

DAWN FARRELL:

So, very short, in closing, as a result of policy changes and our agreement with the government, TransAlta really now has a much clearer future. We now have the certainty and the confidence to invest in gas conversions, hydro and wind, and to work towards our goal of becoming Canada's leading power Company. By working with the government, we've established a path forward that meets the needs of Albertans. The implementation of a capacity market, new rules for coal-to-gas conversion,

and fair treatment of existing renewable assets enables us to supply competitive capacity and energy to the Alberta markets for decades to come.

Before closing, I want to let you know that our 2017 targets will be announced in late December, and we'll incorporate a faster shift to gas as we come off the PPAs at the end of 2020.

Thanks for your attention, and I'd like to now open the line for 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 your handset if you are using a speakerphone 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 comes from Linda Ezergailis with TD Securities. Please go ahead.

LINDA EZERGAILIS:

Well congratulations on all of your work to date, and good luck going forward, given that there's still lots to be hammered out. I have a few pedestrian questions, maybe just to close off actually on Sundance 1 and 2 to confirm that they're closing in 2019 for sure, and then for some of your newer units, and other units that have not been committed yet to converting from coal-to-gas, is that just because you need sign off from your partners, or is there something else at play?

DAWN FARRELL:

Yes, just in terms of Sundance 1 and 2, currently the plan is that they would run until the end of 2019. Linda, you may or may not know, under the existing Federal rules you can close a unit early and add years to another unit. So those are kinds of calculations that we can do, but at this point we still have a plan for both units to run to the end of '19, but there is some possibility that we could make some changes there. In terms of the newer units, yes, they're all under partnership agreements, so we can't really commit on behalf of the partnerships, but for sure we'll be in discussions with our partners.

LINDA EZERGAILIS:

Okay, and just as a follow-up. Is there an intention that any coal-to-gas capacity would just operate under the capacity in energy markets, or is there a possibility that it would require some other backstop or certainty on top of that, or is that a function of how this all evolves?

DAWN FARRELL:

Yes, well I mean, you've probably read the same report that I have, and so we have about the same information, but from what I can see, the ISO is anticipating that there may be an interim period where they'll have to do some interim agreements if they don't have the capacity market designed right away. So they're trying, I think, to get the capacity market designed by 2019 so that it would be ready when the PPAs roll off, but it's a complicated market and it does take a lot of changes, I think, in systems, for dispatch and things like that. So I think they are thinking about transition agreements.

The coal-to-gas conversions will work—they'll actually work under an energy-only market. They'll work under a transition market and they'll work under a capacity market, but they work a lot better when the capacity market rules are in place, so we're trying to—our ambition is to kind of line them up with when that market comes into play, because then we can price the capacity properly, and price the investments properly.

LINDA EZERGAILIS:

Okay. That's helpful, and then for the ones that you've committed to converting, and maybe the ones that can be potentially converted, subject to a partner agreement, can you comment on—you mentioned 10 to 15 years. What are the variables you need to pin down how long for each unit, beyond just maybe accelerating closure of Sundance 1 and 2, or is there certainty around which units you think you expect would run at the lower end of that range versus the longer end?

DAWN FARRELL:

Yes, let me just comment on my view of the preliminary regulations, and I'm looking at John here to make sure I've given you exactly the right information, but I think our information is that the units will be able to run for 15 years, up until 2045 and not beyond 2045. So for example, let's say we had a coal plant that was supposed to go offline in 2025, and we got in converted by 2023, we can add 15 years to

2023. Let's say we ran Keephills 3 all the way to 2030 on coal, we can add 15 years to Keephills 3 and run it to 2045, but we can't run longer than 2045 or 15 years, and John's nodding yes, so that's the answer, as of what the current regulations that are preliminary look like.

LINDA EZERGAILIS:

Okay. That's helpful, and how might we think of heat rates for your sub-critical and super critical facility...

DAWN FARRELL:

No, for sure, the sub-critical will have worse heat rates. The super critical have better heat rates. So, we really are thinking about these as capacity plants, not energy plants, because they—they'll have a—they will be more expensive on the energy side than, let's say, a combined-cycle plant would be, and they will pay carbon tax because of their heat rates being poorer than, let's say, brand new combined-cycle plants, but as a capacity provider, they'll be low-cost capacity because, as you know, a lot of the capital is spent there and it's a very—it's only about \$50 million per boiler to convert, so it's a very low-cost option to convert them to capacity.

LINDA EZERGAILIS:

Okay, and would their nameplate be de-rated, as well?

DAWN FARRELL:

The preliminary work that we've done so far says no, but as we do the more advanced engineering on that, I wouldn't promise that right to the end, because typically once you get into the real specifics of the engineering you've got to really look into all components, but preliminary engineering says today that they would not be de-rated.

LINDA EZERGAILIS:

Okay. Thank you. I'll jump back in the queue.

OPERATOR:

The next question comes from Rob Hope with Scotiabank. Please go ahead.

ROB HOPE:

Good afternoon. Thank you for taking my questions. Just on the coal compensation payment from the government, that's a long-duration payment backed by a high-credit party. Are there any thoughts on monetizing that somehow and bringing forth the value of that long-duration cash flow?

DONALD TREMBLAY:

Clearly, that's something that we will explore. It's a bit too early to make a call on this, but that's clearly something that we'll explore, Rob.

ROB HOPE:

Okay, that's helpful. Then, just in term of maintenance capital for the coal-to-gas conversions, if I heard correctly, you will be—you expect a 40% to 50% reduction in that sustaining capital. I'm just trying to get a sense of will you be able to see this prior to your coal conversion, so in that 2020 to 2022 timeframe, a step-down in CapEx?

DAWN FARRELL:

Well, that's some of the work that we have to do. Now remember, under the terms of the PPA, we have to run the coal plants as coal plants under availability requirements, so certainly we have to maintain the level that's required under the PPAs, but as we start to phase away from coal towards gas, there may be some ability to do some reductions. There's a lot of engineering work going on right now to see how feasible that is. For example, if you're not going to be using the coal-handling equipment, you wouldn't maintain it to the standard as if it was going to run for 10 more years. So, those are the kinds of decisions that we'll make, but we haven't released our views on that yet, and that will come.

ROB HOPE:

Okay, and then just one final question. The pumped-storage hydro project—just a clarification there—would that be based on capacity prices, or would you need a separate overlay with the government for that project?

DAWN FARRELL:

No, that project, because it's such a long-term project—that project will be in place for Albertans for 100 years—it's pretty competitive on its own, but it will have to come—remember they're doing renewables

auctions for 5,000 megawatts, and those are all 20-year CFPs, so it might be able to make it through on a 20-year CFP, or it may need a different kind of structure, because it's a different—it's a really different product than a typical wind project, because it has so many attributes to it. It provides capacity. It provides ancillary services. I've already got people phoning me to ask if they can have the greenhouse gas credit offsets for their businesses. So, it's got a lot of attributes, so it's likely going to require some sort of creative contract, and, of course, we want to get a long contract so we can get some really low-cost financing, because we're really ambitious for that project, to ensure that costs stay low for Alberta companies.

ROB HOPE:

All right, that's helpful. Thank you.

OPERATOR:

The next question comes from Andrew Kuske with Credit Suisse. Please go ahead.

ANDREW KUSKE:

Thank you, good afternoon. I guess maybe the question is looking ahead and just how the capacity market will look and just be designed, what thoughts do you have on that, or have the conversations been with the government already on just the future outlook and design of the capacity markets, because they do come in all sorts of shapes and sizes when we look around the world?

DAWN FARRELL:

Yes, really, there hasn't been any discussions with government or the ISO on what the future capacity market will be, as of yet. I know that—I was with David Erickson the day he announced it and he was talking about some—getting started right away on a really good stakeholder process that will allow a good discussion of what Alberta looks like. I'm pretty encouraged, because I think a lot of the players in the Alberta market are also involved in other capacity markets with their own assets. We have a trading operation that's involved in a number of capacity markets in the U.S. So, I do think that we will have the opportunity to really understand the pros and cons of how different market structures work and what they do, and so I think we'll be able to take the best of what's out there and design something that works for Alberta, which is why I think it will take the time.

ANDREW KUSKE:

So maybe if we just take a walk down memory lane and think about just in the '90s, when Alberta was going through the de-regulation process and they went down the path of the PPAs, how would you compare the current situation and just the engagement with the government, the ISO, and all the industry participants to what happened in the mid '90s before we came through the PPA de-regulation process in the late '90s?

DAWN FARRELL:

Yes, I can't really do that comparison for you, because I was running the IPP group in the late '90s and I was off doing other stuff. I think there was a lot of engagement back then. I think the thing that, if I was to make—without thinking about what was going back there, I think what's good about now is we have an ISO and the ISO has the accountability for reliability, and as part of their accountability for reliability they have stated in their report, which was just on Page 2 of their summary, that in order to ensure that you have reliability, you need to support generators by covering their cost and giving them a return of, and on, capital for the investments they make. So, I think the ISO, given its experience now—it's been in the market for 15 years—has the capacity to do—we probably can do stronger work going forward, because we do have experience with the market here. So, I think that most of the consultations will be with the ISO. It's really the ISO's accountability.

ANDREW KUSKE:

Then maybe, just finally, I guess if we look back, it was a pretty elegant transition from a regulator framework to the PPA framework, and is this the next transition that maybe lasts another sort of 15 to 20 years? Is that how you conceptualize it?

DAWN FARRELL:

Yes, that's how I think about it, and especially, I think these are the transitions that markets have to go through, because the reality is, in my view, the need to reduce carbon is everywhere in every market. The need to bring together environmental pricing with electricity pricing to get the lowest cost fleet is everywhere, and so figuring out how to bring renewables into a system and then have capacity is really important. So, I think what's great about Alberta is we've got—we're starting all of that together at the same time at the front end, which I think is really, really positive. In a lot of markets that I've seen, they go a long ways before they try to correct and then they have a hard time correcting, so I think—I'm

pretty optimistic that we've got the timing right, we've got the time, and we kind of know what's ahead of us.

ANDREW KUSKE:

That's very helpful. Thank you.

OPERATOR:

The next question comes from Robert Kwan with RBC Capital Markets. Please go ahead.

DAWN FARRELL:

We can't hear you Robert, if you're talking.

OPERATOR:

My apologies. We actually have Reid Southwick with ...

REID SOUTHWICK:

Hello? Hello?

DAWN FARRELL:

Hello.

REID SOUTHWICK:

Hi, this is Reid Southwick with the *Calgary Herald*. I'm sorry. I wasn't sure if there was a technical glitch there or not. I do have a question, and thank you for taking it. I'm just wondering who are the stakeholders involved in your hydro project and whether or not there's been any discussion with them so far, and whether or not there's any First Nation land issues or anything like that?

DAWN FARRELL:

Yes, there's a couple of First Nations out there that we're just starting discussions with this week. We didn't want to start until now, until we had announced publicly, but we're starting that this week. As well, there's local communities and local—a lot of the land around there is owned by the government, so there's not a lot of local landowner issues, but we certainly had discussions with—it's with the local

communities and with First Nations, and then, of course, environmental groups, which we're just starting now.

REID SOUTHWICK:

Okay. Are there any—do you know if there—are you aware of any First Nation claims to, for instance, that dry bed that you referred to in your remarks?

DAWN FARRELL:

No, not at this point.

REID SOUTHWICK:

Okay. Is that owned by TransAlta? Who owns that land?

DAWN FARRELL:

The land is government leased land.

REID SOUTHWICK:

Okay, all right. Thank you.

OPERATOR:

The next question comes from Robert Kwan with RBC Capital Markets. Please go ahead.

ROBERT KWAN:

Good afternoon. If I can come back to coal to gas, Dawn, there's a statement that you're committed to convert a number of those units from coal to gas. Is that formalized, is it legally binding, or is that kind of part of the non-binding MOU and really that's just your intention at this point?

DAWN FARRELL:

Actually, it's not part of any legal document and it's not part of the non-binding MOU, but if you look at the framework—the framework of the non-binding MOU is to create the conditions for that. So, if we get the conditions for that, and, of course, economic conditions remain the same, the capacity market gives us the kind of returns we expect, the gas prices stay in the range that make these more economic

than staying on coal, then we would have the ability to make those changes. In our view, today, based on all of our modeling, all of our economics, all of our forward looks, if we get the right conditions for the framework, then those are the best options for converting.

ROBERT KWAN:

All right, understood, and I think you made the statement, though, that those conversions, just because they're so efficient, generally work in most types of environments. So, to be clear, you're not seeking any special support payments there; and the other being, are you seeking, or would you need to see this type of conversion deemed as new capacity, if the capacity market that ultimately is decided actually differentiates between new capacity and existing capacity?

DAWN FARRELL:

We haven't thought that far into that. The capacity market was news to us, believe me, that we received it just last Wednesday, so we think the capacity market makes it easier for us to think about those investments, but I think there's lots of details to come, so I wouldn't want to commit early on what we'd say about that, Robert.

ROBERT KWAN:

Okay, fair enough, and if I can just finish on capacity payments. Who has the rights to the capacity payments for your contracted projects in Alberta, I guess, really, the biggest being Poplar Creek?

DONALD TREMBLAY:

I would suspect that the capacity payment will go to the leaser of the facility.

ROBERT KWAN:

To Suncor?

DONALD TREMBLAY:

We get a repayment and Suncor will have that payment.

ROBERT KWAN:

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

OPERATOR:

The next question comes from Robert Catellier with CIBC World Markets. Please go ahead.

ROBERT CATELLIER:

Hi, good afternoon. I just wanted to go back to something you said in response to Linda's question, that some of the sub-critical units, if they convert, would be able to operate and pay the carbon tax if they don't meet the emission regulations. Has that been confirmed, because that wasn't obvious in the documents that were released last week? In other words, can the converted plants operate if they're non-compliant and simply pay the carbon tax?

DAWN FARRELL:

No, no, it wouldn't be a non-compliance issue at all. The way that carbon tax works is there's a performance standard, and the performance standard is currently being negotiated by stakeholders in the province, and the performance standard will be plus or minus somewhere around—between 0.37 and 0.4, which is really the performance of a combined-cycle plant. So, what that means is that everybody else who emits more has to pay carbon on the difference, a carbon tax on the difference. So, if our conversions were, let's say, 0.57, you would take 0.57 less 0.37, and we would pay \$30 times 0.2. That's the calculation. So, we'd pay that amount. But, it's not a compliance or non-compliance, that's just how the market will work. So, the higher your heat rate, the more carbon tax you'll pay and the more gas you'll pay. So, on an energy basis, you're more a competitor ...

ROBERT CATELLIER:

Yes, no, I ...

DAWN FARRELL:

... but on a capacity—sorry.

ROBERT CATELLIER:

Yes, I understand how it works as to performance. It just wasn't clear to me that it was going to be a performance standard. So, it looks like that's the operating assumption then.

DAWN FARRELL:

Yes.

ROBERT CATELLIER:

Okay, and then just an accounting question. I'm curious how you're treating the payments from the off-coal agreement, you know, return of capital or as an income item, or revenue?

DONALD TREMBLAY:

We haven't made that final determination, we're still talking, we're making our own work on this, and we'll have discussion with our auditor over the next few weeks to make that determination, so we haven't made that decision yet.

ROBERT CATELLIER:

Okay, and then my last question. What do you expect the balancing pool to do with the PPAs that are turned, once the disputes are settled, PPA disputes are settled?

DAWN FARRELL:

We have no idea. We have no expectation. We don't know.

ROBERT CATELLIER:

Not willing to speculate?

DAWN FARRELL:

No. No, we're not speculating. I have no idea. I don't know.

ROBERT CATELLIER:

It just seems to—with the cap that was put in place on the RRO, it seems to be a protection in case some capacity was withdrawn in the market, suggesting maybe that there's an expectation that the balancing pool will terminate the PPAs, and then there'd be a stronger possibility of portfolio bidding.

DAWN FARRELL:

I have no knowledge of that. We have been focused on everything we announced today, believe me. We don't know.

ROBERT CATELLIER:

Okay. Thank you.

DAWN FARRELL:

Thanks.

OPERATOR:

The next question comes from Adam Mitchell with Polar Asset Management Partners. Please go ahead.

ADAM MITCHELL:

Hi, guys. The off-coal agreement requires that TransAlta meet a number of terms and conditions. I'm just curious as to how many of these are monetary in nature and if you have any colour on what those conditions are. Would they involve incremental costs to the Company?

JOHN KOUSINIORIS:

Adam, it's John Kousinioris responding. There are some monetary commitments around sort of annual investments that would continue to be made by the Company in the Province of Alberta, and also just some contributions that we would continue to make in support of communities in the areas in which we currently operate. I can tell you that none of the commitments that are conditions in the agreement are incremental to the current obligations that the Company currently has or, frankly, the current payments that the Company voluntarily makes. I think it would be probably fair to characterize them as being relatively modest obligations on the Company. They're not conditions that we have any concerns, in terms of being able to meet on a go-forward basis.

ADAM MITCHELL:

Okay. Thank you.

OPERATOR:

Once again, any analyst who has a question may press star and one at this time. The next question comes from Linda Ezergailis with TD Securities. Please go ahead.

LINDA EZERGAILIS:

Thank you. This is maybe a bigger-picture conceptual question. With respect to market concentration, which was a major factor in how the PPAs were designed, how might that change, if at all, under a capacity market structure, and how might that be managed by either the balancing pool or any of the generators, if those PPA contracts are cancelled? I mean, that's a big question that I haven't heard anyone really talk about.

DAWN FARRELL:

Yes. Our working assumption is that the same kind of market concentration requirements will be required under either an energy-only market or a capacity market. So, as you know, in Alberta, you can't hold more than 30% of the energy, and you want to be a little bit below that, and you have to really be careful, because nobody wants to get into that issue. So, we would expect sort of the same kind of rules under a capacity market. From what I know, as long as the transmission system is treated as a whole transmission system and not carved up, which we don't expect it to, then we would be in the same position in a capacity market, and as the balancing—if the PPAs were to come back, if people are speculating about that, then the balancing pool really is no longer needed in the markets, and effectively, we would right away have to watch those market concentration rules under an energy-only and a capacity market.

LINDA EZERGAILIS:

Okay.

OPERATOR:

The next question comes from Jeremy Rosenfield with Industrial Alliance Securities. Please go ahead.

JEREMY ROSENFELD:

Thanks. I apologize if there's some background noise here. Just really one question, if you have any thoughts on the longer-term outlook for the Alberta hydro PPAs in the market, with the introduction of a

capacity system; and then, following on that, how that might impact the valuation of those assets and how that might play into future dropdown considerations for TransAlta's Renewables. Thanks.

DAWN FARRELL:

Well, as you know, those assets provide capacity and ancillary services to support the grid here, so I do expect at some point, it's probably not this year or next year, but there'll be discussions with the ISO, and there could be—you never know, there might be a need for some contracting around the ancillary services that's separate from the capacity market. We don't know. I think as they do the rules for the capacity market we'll have to have some of those discussions, because an ancillary service market is a critical component of either a capacity market or a energy-only market. So, at this point, we haven't been planning as if there would be a change. We've planned it that the PPA would end and we would continue to bid into the market, but we'd need to get into more discussions with the ISO on that before we could be definitive about that. The good news is those assets continue to be worth a lot in the market.

JEREMY ROSENFELD:

Sure. Undoubtedly, if they are eligible to receive capacity payments, in theory, they might be worth more and that would be positive from a valuation perspective, dropping them into RNW. Now, just keeping on the RNW theme—and I know you've talked a lot about TransAlta Corp. there, but just thinking about the potential implications for TransAlta Renewables from the introduction of a capacity market, have you thought about what some of the existing assets within RNW's portfolio? Would some of the assets that could have capacity payments, could those be assets that could be added to TransAlta Renewables?

DAWN FARRELL:

That's something that we would think about in the future. We've got a long ways to go get the capacity market in place and get these assets set up for that, and as you know, RNW has both—really, is our long-term contracted asset and has both natural gas and renewables in it. We don't really know how long those capacity payments will be or what that looks like, so I think it's certainly always—everything's always on the table here as we're looking to optimize, but it's not—it wouldn't be high up on our list of priorities for the next year, because our list of priorities for the next year is really to finish up on the

regulatory framework, finish up on the engineering, get the stakeholder support for Brazeau, those kinds of things, so that's lower down on the list.

JEREMY ROSENFELD:

Okay, great. Thanks.

OPERATOR:

This concludes 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.

The first question comes from Sebastian Sanjay with CBC. Please go ahead.

SEBASTIAN SANJAY:

Yes, thanks for having my questions. I have two. First one, when are you planning to be completely coal-free in Alberta?

DAWN FARRELL:

When are we planning to be—well, right now, it would be by 2030, but depending on how well the work flows on the coal-to-gas conversions, it could be earlier.

SEBASTIAN SANJAY:

Okay., thank you, and you were mentioning in the slides that you just showed us a potential of 300 megawatts on renewable energies that you are seeing in Alberta. Do you have any idea of the advancements that would be required in order to change that potential into concrete energy?

DAWN FARRELL:

You're talking about—sorry, to turn renewables into concrete energy? Well, that's really where our Brazeau project comes from. If you look at Brazeau, it's a battery, effectively. So, if you put it together, if you took our 900 megawatts of new pumped-storage and you put it together with 900 megawatts of wind, that's a complete energy and capacity package, effectively.

SEBASTIAN SANJAY:

Okay. Thank you.

OPERATOR:

The next question comes from Reid Southwick with *Calgary Herald*. Please go ahead.

REID SOUTHWICK:

Hi, I just have a follow-up question. With respect to the hydro project, what's your timeline on that, in terms of construction completion, if you have anything like that?

DAWN FARRELL:

Well, if all goes well, finger crossed, lots of people doing lots of work, and we do a really good job of making sure that we've got all the stakeholders' concerns taken care of and all the regulatory work—it's a big project, it will take a lot of work. What we'd like to do is be in position to start construction somewhere around 2021, and we see it as a four- to five-year construction program for the dam. We know that, as we come off of coal, there is job reductions at our mine, and the good news is, is the jobs that are at the Brazeau project provides sort of 10 more years of jobs as we go forward, so it's really positive.

REID SOUTHWICK:

Okay. Is there a completion date in mind or ...

DAWN FARRELL:

Well, yes, we would like to have power in that 2025/2026 period.

REID SOUTHWICK:

Okay. That's it for me. Thanks.

DAWN FARRELL:

Thank you.

OPERATOR:

The next question comes from Ian Bickis with *The Canadian Press*. Please go ahead.

IAN BICKIS:

Yes, hi, and thanks for taking my question. Sorry if I missed this earlier. Are you planning to bid on the first round of renewable contracts that's coming up?

DAWN FARRELL:

Yes.

IAN BICKIS:

It would be mostly wind power in this round?

DAWN FARRELL:

Well, if we told you we'd have to shoot you, so we're not going to tell you.

IAN BICKIS:

Okay, fair enough. Then, in terms of the—a lot of things have been cleared up. I guess, what are the biggest unknowns in terms of what your investments are kind of depending on at this point?

DAWN FARRELL:

What are the biggest unknowns that our investments—no, I think it's really—there's a lot of—so, the path is clearer now. I think we've got a lot of support for the strategy that we're putting in place, because our strategy, you know, we'll keep prices low for Albertans, reduce this carbon faster than under the current regime. So, really, it's just getting certainty around some of the regulations that are underway as we speak.

IAN BICKIS:

What kind of regulations, what details ...

DAWN FARRELL:

Well, there's regulations—the Federal government and the provincial government have to finalize the regulations on the performance standards for the coal-to-gas conversions, and once those are final,

that really gives us a green light to really start thinking about those investments, and then there is the capacity market itself, we've got to get into deeper discussions about what that's going to look like so we can make sure we've got the right returns for those investments.

IAN BICKIS:

Okay, great, and if Site C is somehow linked up to the Alberta grid, what would that do to your potential investments in the province?

DAWN FARRELL:

Well, I think—well, first off, Site C is more a 2025/2026 timeframe. I suspect Site C—there's probably a need in the grid around that timeframe for a combined-cycle plant, a new combined-cycle plant, if there's enough growth, so I would think that Site C would actually replace that plant. So, I don't see it really affecting what we're trying to get done, but it may affect new combined-cycle plants that are trying to get in.

IAN BICKIS:

Okay. Thank you.

OPERATOR:

There are no more questions at this time. I would now like to hand the call back over to Jaeson Jaman for closing comments.

JAESON JAMAN:

Thank you, Operator. That's the end of the call. If any of the people have questions and follow-up, please feel free to contact me. Thank you.

OPERATOR:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.