

## **FINAL TRANSCRIPT**

### **TransAlta Corporation**

#### **2016 Fourth Quarter Results Conference Call and Webcast**

Event Date/Time: March 3, 2017 — 11:00 a.m. E.T.

Length: 53 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



## CORPORATE PARTICIPANTS

**Jaeson Jaman**

*TransAlta Corporation — Manager, Investor Relations*

**Dawn Farrell**

*TransAlta Corporation — President and Chief Executive Officer*

**Donald Tremblay**

*TransAlta Corporation — Chief Financial Officer*

**John Kousinioris**

*TransAlta Corporation — Chief Legal and Compliance Officer*

## CONFERENCE CALL PARTICIPANTS

**Linda Ezergailis**

*TD Securities — Analyst*

**Rob Hope**

*Scotiabank — Analyst*

**Robert Catellier**

*CIBC World Markets — Analyst*

**Ben Pham**

*BMO Capital Markets — Analyst*

**Robert Kwan**

*RBC Capital Markets — Analyst*

**Charles Fishman**

*Morningstar Research — Analyst*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



## PRESENTATION

### Operator

Good morning. My name is Mike (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the TransAlta Corporation 2016 Fourth Quarter Results Conference Call and Webcast. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks there'll be a question-and-answer session. If you'd like to ask a question during this time, press \*, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key.

I will now turn the call over to Jaeson Jaman, Manager, Investor Relations. You may begin your conference.

### Jaeson Jaman — Manager, Investor Relations, TransAlta Corporation

Thank you, Operator. Good morning, and welcome to the TransAlta Fourth Quarter 2016 Conference Call. With me today are Dawn Farrell, President and Chief Executive Officer; Donald Tremblay, Chief Financial Officer; and John Kousinioris, Chief Legal and Compliance Officer.

The call today is webcast, and I invite those listening on the phone lines to view the supporting slides which are available on our website.

A replay of the call will be available later today, and the transcript will be posted to our website shortly thereafter.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



All information provided during this conference call is subject to the forward-looking statement qualifications, which is set out in the slide deck and detailed in our MD&A and incorporated in full for the purposes of today's call.

The amounts referenced are in Canadian currency, unless otherwise stated.

The non-IFRS terminology used, including comparable gross margin; comparable EBITDA; comparable funds from operations; comparable free cash flow; and comparable earnings are reconciled in the MD&A.

On today's call, Dawn and Donald will review the fourth quarter and annual results, discuss the performance against our goals and priorities for 2016, and review our 2017 goals. After these prepared remarks, we will open the call for questions.

I'll now transfer the call to Dawn Farrell.

**Dawn Farrell** — President and Chief Executive Officer, TransAlta Corporation

Thanks, Jaeson, and welcome to everybody on the call. Today I'm going to review our results in 2016 and how they positioned us for 2017 and beyond.

You all know our strategic themes of balanced wins, execution advantage, and history repeats, so let me start with balanced wins.

In 2016 we achieved our top priority when we reached a mutually acceptable coal transition agreement with the Government of Alberta. With this agreement in place, we can now focus our transition plan towards gas and renewables for generating clean power.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Now as a reminder, our coal transition plan results from two key agreements with the provincial government, each critically important for investors. First, the off-coal agreement establishes 14 annual payments of 37.4 million from the Alberta government to TransAlta that will total more than 500 million by 2030.

We do expect the first payment will be made in the third quarter of this year. And these payments compensate our investors and our debtholders for assets that cannot run on coal past 2030 in our market here.

The second equally important of the transition agreement is the memorandum of understanding, or for short what we call the MOU. Now this MOU sets out the terms for working together with the Alberta government to implement and accelerate the goals of the Climate Leadership Plan. And when elements of this MOU are executed, we can make significant investment decisions, including, first, when and how to extend the useful lives of our coal plants by converting them to natural gas; and secondly, when to invest in the Brazeau pump storage project.

We believe this vital infrastructure is needed to support the reliability of the future, intermittent renewable generation that will be built here in Alberta.

The MOU also sets out the work we will do to ensure that new rules in the capacity market and new rules for performance standards create a level playing field for existing and new generators. The MOU also directs work to get the right standards for the coal-to-gas conversion.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Our work under the MOU is ongoing. Today we, like other generators in the province, are working with the government and the ISO to create new rules and systems that will support a functioning, resilient capacity market.

We're committed to working with the ISO to ensure that a capacity market is in place by the beginning of 2021, the year just after when the PPAs roll off the coal fleet, and we're committed to our customers that this new market will lead to affordable power prices in the province for them.

Work is also underway on the federal coal-to-gas conversion regulations. We expect these new regulations will support our strategy to extend the useful lives of our coal assets, and maintain the cash flows from these converted units post-2030.

We are seeing the alignment needed to use existing infrastructure as backup to the new renewables that will be developed in the market.

Now this is really important for investors. The new capacity market and the opportunity to extend the lives of our coal assets has competitively positioned us to refinance our debt and create the financial flexibility needed to make new investments for the future.

The move to the capacity market was the breakthrough we needed for investors to be confident in the cash flows from our plants beyond the existing PPAs. This was indeed the most important news for the Company in 2016.

So to conclude, focusing on balance will meet the goals established in the Climate Leadership Plan will reduce the costs of the transition off coal for consumers, and will allow incumbent

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

generators such as ourselves to be a pivotal part of the future power supply here in the province. And this is truly a win-win for TransAlta and for Albertans.

Our second strategic theme is execution advantage. This year we delivered performance that was in line with our 2016 financial guidance and expectations, including comparable EBITDA of 1.1 billion, which was 6 percent over 2015, comparable FFO of 763, which was 3 percent over 2015, and comparable cash flow of 299 million, which was in line with what we delivered in 2015, which was slightly higher at 315 million.

We achieved these results during the lowest commodity price cycle ever experienced in Alberta, where the average spot price was just \$18 a megawatt hour.

Operationally we delivered adjusted fleet availability of 89.2 percent, just slightly better than our performance in 2015 of 89 percent, and during the year we repositioned our capital structure by raising approximately 362 million of nonrecourse project financing. These finances better align our debt maturities with contracted cash flow.

Additionally, we did strengthen our balance sheet by reducing debt by over 350 million in the year, which we did by using a combination of cash flow and the proceeds of the 173 million that we received from the sale of some of our Canadian gas and renewable assets to TransAlta Renewables.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

We also received a very favourable decision in the Keephills 1 force majeure arbitration confirming that our Alberta coal operations team made the right decision when they took that unit out of service. This decision allowed us to reverse accounting provisions of approximately \$80 million.

The investment we made in new renewable assets in 2015 contributed 25 million in EBITDA, which improved the EBITDA run rate of this portfolio of assets. And of course, as you know, we advanced the construction of South Hedland, which is expected to be in service in a few months and expected to be on schedule and on budget. So all-in-all, I believe we had a tremendous year.

Our third strategic theme is history repeats. Imagine 105 years ago TransAlta built and commissioned Alberta's first hydro asset. These plants all still operate today within our very high-value Alberta hydro portfolio that now totals about 900 megawatts.

In Alberta's new carbon-constrained environment, existing renewable assets and new projects, such as the 600 to 900 megawatt Brazeau pump storage hydro expansion, will add significant value for investors. This ambitious project will serve as a storage battery and support the renewable power plants to be added under the Climate Leadership Plan. This project will become yet another piece of our long history of building successful hydro projects in the province.

Since our last call, we've continued to progress the project. We've already met or arranged to meet with the chiefs of the indigenous communities that live around the Brazeau area, and we've progressed environmental and geotechnical studies.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Now we're not spending a lot of money here. All this low-cost work is being done to prepare for discussions with the Alberta government regarding a long-term capacity contract.

With that, I'm going to turn the call over to Donald for a review of our fourth quarter annual results and an update on our financing strategy.

**Donald Tremblay** — Chief Financial Officer, TransAlta Corporation

Thank you, Dawn. Slide 7 provides the financial highlights for Q4 2016 and the annual results against our 2016 guidance.

The annual comparable EBITDA, excluding the K1 provision adjustment, came in at 1.1 billion, 6 percent or 60 million better than last year. The higher EBITDA resulted from a return to normal performance from our energy marketing business, which contributed 52 million of EBITDA, up from 37 million last year.

The active management of our Alberta water resource resulted in an additional 10 million of gross margin, and a lower-price environment also contributed. The hydro assets in Alberta are contracted under a 20-year PPA that expires in 2020. The PPA contract provides us with flexibility to optimize our margins through our physical delivery in the power market.

Twenty-five million of EBITDA from renewable assets acquired in late 2015. This was the first full year contribution from these assets. And finally, 50 million reduction of our overhead.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

During the year, we continued to delivery efficiency and productivity gain at our SunHills mine. However, these gains were offset by the unplanned outage of a large drag line, as well as outage caused by heavy rain in the third quarter. As a result, our coal costs remain unchanged in 2016.

Low price did not materially impact our Alberta coal generation as it's largely hedged, but it negatively impacted our margins for Alberta wind and Centralia.

FFO in 2016 was up 23 million at 763 million. Noncash mark-to-market gain on physical and financial position, as well as long-term receivable on a contract with a customer in Australia were included in our EBITDA, but excluded from FFO.

The chart on Slide 8 demonstrates our ability to maintain our EBITDA around 1 billion despite the rapidly declining price environment in Alberta. As you can see from the chart, price in Alberta moved from approximately \$80 in 2013 down to the current historic low of \$18 per megawatt hour in 2016.

Our prudent and effective hedging strategy resulted in average hedge price of \$46 per megawatt hour in 2016 against the average market of \$18 and \$51 per megawatt hour in 2015 against an average market price of \$33. This only reflects the value of our hedging transaction and excludes the value attributable to proprietary trading in the province.

Finally, our comparable free cash flow was 16 million lower than 2015 at 299 million. During the year, we proactively managed our sustaining capital then by re-scoping outage work at Alberta coal and deferring major maintenance at the Sarnia gas facility to reflect current market condition,

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

which provide a reduction of 28 million and by deferring a 15 million diversion project at our Ghost River facility.

We will consider moving forward on this project when price supports the investment.

As a result of this initiative, we maintain our free cash flow at a similar level to last year despite an increase in distribution to TransAlta Renewables following the dropdown of our Canadian assets in January of 2016.

Cash flow from generation, which we referred to as free EBITDA in the past, consists of EBITDA less sustaining capital for each of our generation business segments.

As Slide 9 shows, cash flow from gas and renewable totalled 582 million in 2016, an increase of 60 million, or 11 percent over last year. The increase is due to the full year contribution from wind and solar assets acquired in 2015, better performance from the hydro facility, and a reduction of sustaining capital spending in our hydro and gas business.

More importantly, our gas and renewable business is now contributing approximately 80 percent more cash flow from generation than our coal business and generated approximately 60 percent of the cash flow from our generating assets.

Next I want to take a moment to discuss our 2017 guidance, which was released in December of 2016.

Comparable EBITDA for 2017 is expected to land between 1.25 billion and 1.35 billion. This range is in line with our performance in 2016. The commissioning of the South Hedland project in

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

mid-2017 and the off-coal payment will offset the impact of lower price as our hedges continue to roll off. Also impacting our 2017 results is a planned major turnaround of a drag line at our SunHills mine that will impact our mining operation and increase our costs.

Interest expense may increase slightly in 2017, depending on the timing of certain financing and the repayment of debt maturing in 2017 and 2018. Interest expense will also be impacted by capitalized interest on our South Hedland project.

You can see from the table at the bottom of Slide 10 that our 2017 guidance does not include any significant increase in price for Alberta and Pacific Northwest. In 2016, average price in these regions were 18 and \$21, respectively, where in 2017 we are assuming the spot price to be 24 and \$30 in Alberta and 23 to \$28 in Pacific Northwest.

The continuation of an oversupplied market and a lack of demand growth are key drivers to this low-price environment in Alberta. The driver of low price in the Pacific Northwest is the price of gas and carbon.

We do remain highly hedged in 2017 at 85 percent at a price of approximately \$45 in both Alberta and Pacific Northwest, which is slightly below the hedge price achieved in 2016.

Our sustaining capital for 2017 is in line with our spending in 2016 at 260 million to 280 million. As we progress our coal-to-gas conversion strategy, our sustaining capital strategy at Alberta coal will be adjusted to reflect the remaining life of the plant and its potential conversion to gas.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

As a result, we expect our 2017 comparable free cash flow to be in the range of 300 million to \$365 million, or between \$1.04 and \$1.27 a share. The annual dividends are set at \$0.16 a share, resulting in a payout ratio of approximately 13 to 15 percent.

The capital required to complete the construction of our South Hedland power plant is estimated at 230 million to 250 million, which includes a large payment of 160 million to Horizon Power at the completion of commissioning.

Over the last two years we have raised approximately \$800 million in project-level financing. The market for financing high-quality constructed assets with solid counterparties continued to be robust, and we expect to further this strategy over the next two years. We plan to raise between 700 million to 900 million over the next 18 months to repay some of our existing debt and support our growth.

The closing of our asset sale to TransAlta Renewables early in 2016 and the cash flow generated by the business contributed to a reduction of our net debt by more than 350 million during the year.

Year over year, our liquidity has increased from 1.3 billion to 1.7 billion, including approximately 305 million of cash. In January 2017, we also announced the sale of our 51 percent interest in an 88 megawatt non-contracted wind project in Alberta for approximately 60 million. A portion of our liquidity will be used to repay our US400 million bond that comes due in the second quarter of 2017.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

In the fourth quarter, we also extended our US bilateral credit facility to 2020. As part of this, we reduced the facility to US200 million from US300 million. This reduced our available credit from 2.1 billion to 2 billion going forward.

Our performance against key financial ratios, which has improved significantly in 2016, is set out at the bottom of this slide.

At year-end, our adjusted FFO to adjusted net debt was 17 percent. This is up from 15.2 percent at the end of 2015. The commissioning of South Hedland in 2017 is expected to further enhance this ratio. And with a full year contribution to EBITDA in 2018, we expect to achieve our goal of FFO to debt in the range of 20 to 25 percent and debt to EBITDA of 3 to 3.5 times.

With that, I will now hand the call back to Dawn for her closing remarks.

### **Dawn Farrell**

Thanks, Donald. I want to spend the last few minutes of the call discussing what's ahead in 2017 and beyond.

In addition to the three strategic themes I described earlier, we are adding a fourth, and we're calling it positioning for competition. All four of these themes are needed for us to succeed in our goal to become Canada's leading clean power company.

To increase our competitiveness going forward, we need to achieve a lower cost of capital. We know that and you know that. And to do this, we plan to focus on a couple of key areas.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

First, over the medium term, we do intend to continue to allocate a significant portion of our annual free cash flow to the repayment of debt. This will ensure maximum financial flexibility as we move from PPAs to a capacity market.

Second, we will demonstrate our ability to reinvest in gas and renewable projects to create value for our shareholders, which aligns with our goal of becoming Canada's leading clean power company.

And then finally, we will continue to create efficiencies and improvements in the existing business, which will free up cash for reinvestment.

To be positioned for the ever-greater competition we know is coming, we must continue to be more productive, and we must continue to strive to be the lowest-cost operator.

Over the past couple of years we've instituted new and more efficient processes, lowered our operating costs, and improved availability. These productivity efforts have reduced our coal costs down to \$22.31 a tonne in 2016 from a high of 26.73 in 2013 at our coal mine up north.

At Centralia, we've lowered our weighted average coal cost by \$7 a tonne over the same period. We've also reduced our OM&A as the chart demonstrates by approximately 10 percent, or \$50 million since 2014. And that's at the same time that we've been changing assets, adding assets, and achieving a fleet of around 10 gigawatts. This cost reduction equates to \$5 a kilowatt.

We are also much more diligent in the way we allocate capital for our existing assets. This diligence has driven a constant reduction in our sustaining capital while maintaining availability in the

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

range of 88 to 91 percent. Our sustaining capital has moved from the 300 million to 350 million range in the early part of the decade to a new run rate of 225 million to 275 million, which we expect to continue into the foreseeable future.

So as I look ahead over the next three years, I believe that the combination of our past growth and productivity initiatives can improve the run rate of the free cash flow that we can expect from the business. Changes are also necessary as we prepare our fleet for the capacity market and as we execute the work contemplated by the MOU.

As we bring on South Hedland and as we realize additional savings from the productivity investments that we've been making, we can begin to increase our target for free cash flow from the 300 million to \$350 million range that Donald talked about for 2017 to the 400 million-plus range as we get into the 2018 to 2020 period.

Now it takes a lot to move the needle on free cash flow in a low-price environment even with our PPAs in place, but the hard work of the team is giving me the confidence to share that aspiration with our investors. This level of cash flow can help us lower our debt sooner and gives us the cash for growth at both TransAlta and TransAlta Renewables.

So I would like to conclude with our 2017 goals. Our first goal is to transition off coal to gas and renewables by working collaboratively with the Government of Alberta on three major initiatives: the first to advance our investment in Brazeau pump storage by working to secure a long-term contractual arrangement; the second, to work with other stakeholders in the ISO to assist in the

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

design of a new capacity market that will be fair to existing and new generators, keep prices affordable for consumers, and incentivize new investment; and the third is to establish specific terms and conditions for converting our coal plants to gas and extending their useful lives to prepare them for the new capacity market.

Our second goal is to commission the South Hedland gas-fired station by mid-2017, and deliver new cash flows to our investors in TransAlta and TransAlta Renewables.

Our third goal is to grow our renewables platform by winning contracted renewable RFPs in Saskatchewan, Alberta, and in Australia. These investments will meet our required risk-reward return criteria and create value for our shareholders.

Fourth, we will execute our financing strategy to further strengthen our balance sheet and contribute to a strengthening of our cost of capital.

And fifth, we'll continue to lead in safety and environment performance while delivering against our 2017 financial targets.

We are already advancing our plans to achieve each goal. The hard work and the results in 2016 have demonstrated that TransAlta can achieve a successful transition to a clean power future.

I cannot close without thanking the TransAlta employees. In 2016, our TransAlta teams put in long hours, resolved tough problems, and never gave up.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



I am grateful to all of them. 2017 will be another challenging and interesting year, but because of their commitment, their capability, their determination and tenacity, and particularly their strong work ethic, I am confident that we'll be successful.

I'd also like to thank the investors that stood with us during the difficult times in 2016. You had faith that our team could successfully navigate through our challenges and preserve the value in the Company that others thought could be lost. We intend to justify your faith as we position to become Canada's leading power company.

We look forward to reporting to you on our progress through 2017, and with that, I'll turn it over to Jaeson, who will open the lines for calls.

**Jaeson Jaman**

Thank you, Dawn. Operator, can we start the Q&A session for today?

---

## Q&A

**Operator**

At this time, I'd like to remind everyone in order to ask a question, press \*, 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster.

Your first question is from Linda Ezergailis from TD Securities.

**Linda Ezergailis — TD Securities**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Thank you. I was wondering if you could maybe help us out with your 400 million free cash flow target for 2018? Can you comment on what sort of—what needs to be achieved by then versus what's already kind of baked in from existing assets in your cost structure, et cetera? I guess I'm most interested to know, I mean we all have a view on prices, but to the extent that you can talk to what sort of recovery might be embedded in there I'd appreciate that. But also what sort of further cost reductions might be needed to achieve that?

**Donald Tremblay**

I can start and maybe, Dawn, feel free to comment after. Like it's basically like continue the work that we're doing on our O&M and administration costs. Like we believe that even though we did great work over the last two or three years there's probably still more that we can do.

And we have teams working on reducing our mining costs, like improving our coal operations, reducing our overhead. So there's people working on this. And there's no specific goal that I can share with you, but I can tell you that people are working hard at all levels to basically reduce those costs.

The sustaining capital is an important element. Like Dawn mentioned, like the new run rate that we'll have—and clearly we'll progressively get to the lower end of that range as we go closer to 2020—but over time as we're getting closer to the termination of, or the expiration of, those PPAs, you will see us managing our CapEx differently and improving on that front as well. So those are the two controllables that we have.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

We're not speculating on power price. We don't believe power price will pick up in any significant way in 2017 or 2018, so there's nothing in this like counting on a significant price increase in the province. So ... And most of our generation is contracted or hedged, so price doesn't have a huge impact on this. So it's basically working on our costs, efficiency, reducing our CapEx over time as we're getting closer to the PPA expiration.

So, Dawn, I don't know if you want to comment?

**Dawn Farrell**

Yeah. I think I would just add one thing. Remember in 2018 we'll have our first full year of South Hedland. And typically when new assets come into the portfolio they don't have as much capital requirement at the front end of the curve. So our guidance on capital includes bringing on that asset, and includes the kind of efficiencies that we expect to be able to make as we transition towards the future where we'll be converting some of those plants.

And just in terms of your question about how much, it's a very small amount of aspirational dollars in there from—it's based on run rates that we know that we can achieve under productivity projects we currently have underway with employees and the full year of Hedland and the work we've done on the capital. We have no—we'd love to see prices go up. That would be awesome, but we're not building that into our plans, at least between now and 2020.

And I think the other thing that's important there is all of that is in the current environment that we live in. There's always changes that come at us, Linda, like we don't exactly know what's going

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

to happen here with the balancing pool. So if there were some changes there in terms of PPAs and stuff like that we have to reassess.

But on our current PPAs the way they're set up, our current business the way it's set up, that's where we're gaining the confidence.

**Linda Ezergailis**

Okay. That's helpful. Maybe just to follow up, in your annual report you talk about evolving and implementing a more competitive business model and cost structure that works for more distributed gas and renewable plants across several regions. Can you just describe a little bit as to what that might entail? And again, I'm assuming that's not embedded in the 400 million cost—or free cash flow, but just comment on how that kind of fits in with your aspirations on the rest of your company on the coal and mining side, et cetera?

**Dawn Farrell**

Yeah. So the work—so remember, we have a cost structure for our company that has big coal units with lots and lots of work that gets done at those units and lots of POs and things like that. So as we look forward and we look at the mix between coal and gas and renewables, there is a different kind of cost structure that can be achieved.

So we're really working with our gas and renewables team to start to set that up so that effectively they become the cost structure for the future. And as we convert coal plants they kind of get attached into that new cost structure. So that's kind of broadly how we're thinking about it.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Linda, it will involve significant—we think as we go forward it'll involve significant IT investments. Now don't hear that like all of a sudden we've got a \$100 million IT project. Our IT team is fabulous. These guys know how to shift from what they do internally; they use outsourcing; they use the cloud; they're working heavily with suppliers so that we effectively have the kind of operation that can be heavily data dependent and have a lower cost structure.

So those are the kinds of things we're thinking about. Now that shift in there is not built into that target. That would be for as we move out of the 2020 period and move into the capacity market.

**Linda Ezergailis**

That's great. Thank you for the context. I'll jump back in the queue.

**Operator**

The next question is from Rob Hope from Scotiabank.

**Rob Hope — Scotiabank**

Good morning. Thank you. Just maybe a follow-up on Linda's question regarding the \$400 million of free cash flow; what assumptions are you making regarding the Mississauga plant there?

**Donald Tremblay**

Like we just renegotiated the contract, so we will receive our payment in '17 and '18, and then the contract is rolling off and the cash flow goes away, but we basically are able—like our plan is assuming that we'll make it up.

**Unknown Speaker**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

But it's not—we're not assuming that—

**Donald Tremblay**

A new contract.

**Dawn Farrell**

—you roll over that contract or that right now we have not built into our cash flow assumptions anything with that plant. We have people that are working on thinking about if they can find a way to get some stuff in that plant, but that's not in that target.

**Rob Hope**

All right. That is helpful. And then just in terms of balancing pool, what would you view as the potential implications of any terminations of the PPAs that they now hold?

**John Kousinioris** — Chief Legal and Compliance Officer, TransAlta Corporation

It's John Kousinioris responding. I mean if there is a termination from the balancing pool, I mean clearly those units would end up coming back to TransAlta. There would potentially be termination payments that would be coming our way as a consequence of the termination of those arrangements prior to their end-of-life. And then we would integrate the operation of those plants into our own system, including the bidding of those plants in the Alberta marketplace in an appropriate a manner that we believe is appropriate.

**Rob Hope**

All right. That's helpful. Thank you.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast**Operator**

The next question is from Robert Catellier from CIBC World Markets.

**Robert Catellier — CIBC World Markets**

Hi. Good morning. I wanted to follow up on the Mississauga plant here, understanding it's not in your outlook beyond the existing contract. Maybe you can just spend a minute on what you're doing to try to maximize value from that asset?

**Dawn Farrell**

Easier to explain—

**Donald Tremblay**

So like the team is already—like it's more than just in Mississauga. We also have like Ottawa; we also have Windsor. So there's other facilities in Ontario that our teams are working on to capture more value to extend basically the value that we're making with those projects.

There's also the Sarnia facility that is part of that mix. So it's not just Mississauga. It's a broader discussion that we're having with our teams in terms of like surfacing more value from our Ontario gas asset, depending on where Ontario goes into basically the future.

**Dawn Farrell**

Yeah. Just to be clear, we have—so the way the contract works is we get paid for 2017 and 2018.

**Donald Tremblay**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Yeah.

**Dawn Farrell**

At the end of 2018 we still have the plant. We have a decision—we had a decision to make whether or not we would just close the plant down and we try to sell off the parts or continue to keep it there and mothball it a bit.

We've made the decision that we'll keep it for now. And we have a team focused on whether or not there's the potential to add additional revenue through a call that will likely come in Ontario for capacity to back up their market, or sell it across the border.

But as I said, currently that would be icing on the cake. At this point we've built in as if that project stays there mothballed. The reason we decided to mothball it is, a, it's very cheap to do that, and b, there's good potential—there's more potential for that plant for a capacity market post-2020. So it does have some value in that post-2020 period. So spending a little bit of money making sure that it doesn't rust is probably not a bad idea. But the teams will see what else they can do.

**Robert Catellier**

Okay. That's the colour I was looking for. And just to follow up on the Brazeau pump storage project, it kind of looks a little bit like a catch-22 in terms of you want to reduce your capital cost, which obviously makes moving these projects forward, but on that specific project do you think you need a reduced or lower cost of capital to make that project work? Or is it really the mirror image

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

that moving forward with the project because of the nature of the project might actually reduce your cost of capital?

**Dawn Farrell**

I think it's exactly what you say. I think—so the way I look at it is what makes that project happen is a long-term contract. And in hydro projects you're not able to really develop them and take risks on them in a merchant market. It's impossible.

You can't go—there's no investor who's is going to line up and give you money for five-year capacity contracts on a \$3 billion investment where you have to make your money on the differential between high prices and low prices. So it requires a contract.

What's unique about that project is under a carbon tax, under 30 or \$50 carbon tax, even with the performance standards there's no question that anything that doesn't create carbon but provides capacity and storage is extremely valuable. So the math that we've done out of it it's more valuable than any gas-fired capacity that you could put in to back up renewables. So it's got great attributes.

Now if we can win some sort of competition to be able to get into a long-term contract so that some of the renewables that—right now Alberta is going to call for 5,000 megawatts. If of that 5,000 megawatts let's say they set aside 2,000 for renewables and called for capacity—or sorry, set aside 2,000 for hydro and called for hydro and we competed in that and won, I think the government's

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

pretty clear to bring on large hydro in Alberta you need those contracts. I think if we got the contract that, of course, gives us a big future and lowers the cost of capital.

I think secondly, though, we probably look at the project and finance it separately on the basis of its contract. And part of the work we're doing is also thinking about whether or not there's a role here for the Canadian Infrastructure Bank because to the extent you can get even a lower cost of capital out of that that's what really gives Albertans low prices in the future. And it really makes the move from coal to gas and renewables less costly overall. And we all know that consumers are—really want low prices as they go forward even though they want the environmental benefits.

So I think just to kind of sum it up, winning the project will help the mother ship company, but we'll probably look at it as an independent project that we'll finance separately. And the more low-cost sources of finance that we can get, the lower the cost of the PPA is. So that's currently how we're thinking about it.

**Robert Catellier**

Okay. Thank you. That's a very helpful answer.

**Operator**

The next question is from Ben Pham from BMO.

**Ben Pham — BMO Capital Markets**

Okay. Thank you. On Slide 11 you mentioned on the debt side 700 million to 900 million in a bullet point below the monetization of coal payments. And not sure I missed it, but is that—are you

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

suggesting that you'll monetize the future streams and that will result in a pretty big portion of that debt that's being repaid?

**Donald Tremblay**

So first like the 700 million to 900 million is more than just the monetization of coal payments. The off-coal payment is part of that, but it's only like a portion of it. There's other contracted assets that we are currently working on on financing that also including the 700 million to 900 million that we'll achieve over the next 18 months.

**Ben Pham**

So your base plan now is you will monetize the off-coal payments?

**Donald Tremblay**

Yeah. So that's part of our plan. The timing is still uncertain, but we think—it's in our plan to monetize that payment over time.

**Ben Pham**

Okay. I just wanted to clarify. And can you talk about your hydro plants specifically and how you think about how those plants could operate in a capacity market? And could it be different than today; perhaps maybe some constraints that the contract has right now with the balancing pool or maybe there's maybe use some utilization inefficiency that you could crystallize in a different market?

**Dawn Farrell**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Yeah. Well first of all, just those hydro plants have more value outside of PPA than the PPA gives us today. So just be clear, the PPA constrains the value to TransAlta. There's huge value in those hydro plants, so that's kind of the first principle.

As we think about the capacity market, I mean there's—first of all, we can bid capacity out of the hydro projects into the capacity market. But we'd also want to—we also have to balance that in terms of the ancillary services market because those plants have really strong value here in the market for that.

So—and then of course their third value is energy. The energy value's never the big value in hydro. It's always our ability to shift and capture either ancillary services revenue or capacity market revenues. So when we do our modelling we think that there's kind of this equivalent value that's available as we go forward into the market with that because of that.

The biggest thing the hydro plants have is their flexibility. They have the—they are the fast-start capability. There's nobody can beat that. And what's really interesting about the technology that we're looking at for Brazeau is it's incredibly fast, so it beats everything.

And those are the kinds of attributes you need because, as you know, one of the biggest issues with solar, if the province decides to do more solar, is when the sun goes down it goes off immediately. You have to start units up really quickly. And the same with wind. So we think it's—we've always known there was value beyond the PPA. And I think in the capacity market it's just restructuring that value differently.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Ben Pham**

And can I clarify, Dawn, the enhancement of the value; is that more on the production side where you may not be motivated to produce to a certain level today? Or is it something else?

**Donald Tremblay**

So given like the capacity factor of our hydro is roughly 20 percent, so we need to look at the hydro as peaking plants. They—like most of them have storage, so we can manage the generation. The Brazeau project, even forget about the pump storage which increased it, but like the current hydro project that we have at Brazeau it's a big peaking plant that we own; provide a lot value not only in the energy market because clearly we can pick the best 20 percent hour and generate value there, but it's also the ancillary value that is created for the province.

And a lot of those revenues, like today our cap through the PPA that we have and in addition to this like post-2020, they will be eligible to participate in the capacity market and earn additional revenue.

**Dawn Farrell**

Yeah. Think about it this way—

**Ben Pham**

Okay.

**Dawn Farrell**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Currently the hydro PPA creates value for us and the balancing pool. And the reason it does is because it was based on a very low cost base at the time that it was set up for the 20 years. And so it's been a huge benefit to Albertans that PPA.

That value was always to come back to TransAlta, and it will come back to TransAlta. So you go from a cost of service type financial contract to a market-based contract, and that's the move that creates the additional value.

**Ben Pham**

Okay. That's very helpful. Thanks, everybody.

**Operator**

And as a reminder, to ask a question, press \*, 1.

The next question is from Robert Kwan from RBC Capital Markets.

**Robert Kwan — RBC Capital Markets**

Good morning. Dawn, if I can just follow up, you've made a couple of statements here that lead me to think, maybe incorrectly, that there's been some discussions around the capacity market and that framework. And I guess the first one, your comment, being that you could bid the hydro capacity into the capacity market, has that been confirmed? And what that framework, whether it's going to follow the PJM framework, or something else?

**Dawn Farrell**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

No. No. There's—I mean our discussions in the capacity market are early days, and so all of this is based on our own work that we've been—our own analytics that we've done on capacity markets and we've—you know us. We're crazy analysts here, so we've got—we've been modelling capacity markets with different attributes to them some based on PJMs, some based on other markets.

And then what we do is we pressure test our assets against those to see what we think they'll look like. But the actual rules in Alberta, I can't imagine. I mean I'm not lobbying here to the ISO, but I can't imagine why you wouldn't want the Alberta hydro to be at capacity in the market here.

**Donald Tremblay**

Those hydro with the backstop that they have and the storage that they have like provides significant amount of capacity—

**Dawn Farrell**

Yeah.

**Donald Tremblay**

—to the province. So that 900 megawatts needs to be regarded (phon), I believe.

**Robert Kwan**

Okay. And then I guess the other statement you made a little bit was just kind of what your pump storage facility or your existing hydro facilities having a much, much better ability to be a load-following resource?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast**Dawn Farrell**

Yes—

**Robert Kwan**

Do you expect there to be within the framework some sort of premium? Or put differently, a penalty for things like solar and wind that wouldn't be load-following?

**Dawn Farrell**

Well, I mean let's—I'm just practically 31 years of experience thinking about doing the modelling and then also thinking about what changes. If you bring in 5,000 megawatts of renewables and let's say 3,000 of them are more intermittent like solar and wind to a system as small as this, the volatility will increase dramatically because you're going to want to capture every single hour that the wind is blowing and the sun is shining; you're going to want to get those low-cost renewables into the system.

In order to do that you've got to have—you're going to have to—all else being equal, have more load followings. And you're going to have to have a market that enables the backup of those renewables. And particularly if you're bringing them in on long-term contracts with what are those contracts called?

**Donald Tremblay**

(unintelligible)

**Dawn Farrell**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

Contracts? Yeah. If you're doing contracts for differences over 20 years and at the same time you're trying to ensure that the capacity generators have compensation so that they stay in the game, you have to create an environment where those values are created. So if you look at Brazeau with its storage capability of let's say we could get it to 900 megawatts, and we think we can—it's the difference between two penstocks and three—so we're kind of modelling both. That's a significant storage for that wind and hydro, and it actually creates significant value for those wind and hydro contracts.

**Robert Kwan**

Okay. If I can maybe ask about how you're thinking about the capacity market maybe a little bit longer term. If you think about the Brazeau pump storage and the potential capacity contracts, on one hand that would be a really great development or long-term contract there. But then as you think about other developments maybe like a Sun 7, how do you approach the capacity market for those other investments kind of knowing that the government is willing to sign contracts for other generation outside of the general capacity market framework?

**Dawn Farrell**

Yeah. What I've seen—so I kind of have it in three different buckets, right, in my head. And again, this is all speculation; I'll say that for the lawyers in the room. I am speculating on what a capacity market could look like. So this isn't to speak about value for our company. It's just to think about how you would do it here.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

So in my mind if you take something like our coal-to-gas conversions, it's a small amount of capital. And effectively if the capacity market had three- to five-year contracts in it we can cope with that, right? We can cope with that contract structure against those existing assets. That makes sense to me.

If you look at hydro, I think people who work on long-term hydro—and of course I've got five years at BC Hydro where we had very, very big hydro—but if you're talking about bigger hydro here in the Alberta market, the risk on hydro is always that front-end regulatory work, which takes four to five years, and the construction time frame, which takes four to five years. No one's going to bet \$3 billion on the possibility that when they get there there'll be a five-year capacity contract that they can bid on and make a bunch of money. Like you're just not going to do it; at least we're not going to do it.

So I think there the reason that you're doing sort of a capacity contract for different—similar to what you're doing with the wind—is you're doing that because that allows that kind of renewable asset to come into the province. So that's a different bucket, and I think all the renewables, frankly, all 5,000 megawatts, will have those kinds of long-term contracts.

So then in the middle it leaves new gas, effectively. And so our view—what we've seen is in other markets—and we're doing some more work on this, Robert—there are investors, there seem to be investors that will bring some money into new gas in that with contracts that are in that kind of five- to seven-year range because gas is, a, easier to get regulatory approval for and faster to build.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

So you've got a shorter time frame to when the capacity market is, and you can start to make some bets on that.

So I think if you thought about it your kind of three- to five-year capacity contracts for existing, your long term for renewables, and then the gas is somewhere in that five to seven years. Now that's just me, Dawn Farrell, talking. There'll be stakeholders with all sorts of views. The ISO will have its views.

But I think a functioning market could ensue if you kind of looked at it that way.

**Robert Kwan**

Got it. And just to your comment of there seem to be investors willing to bring money in for gas in the three to five-year contract range, is TransAlta one of those investors?

**Dawn Farrell**

No. No. And I said more five to seven for new gas. No. My bet is on converted gas.

**Robert Kwan**

Okay.

**Dawn Farrell**

I will—our plants converted. My view is they can start out at 60, 70 percent capacity factors, then they can drop down over time, and they can back up the grid. I'm fine to bring gas on to do that, but I would not take a bet personally.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

I mean they'll get a new CO here eventually and that person might be different, but they'd have to knock me over to get an investment where unless—unless, Robert—the government guaranteed me the same kind of contract that we have on South Hedland or in Solomon. If I had a fee schedule in the contract that said if you change your mind and you don't want carbon anymore and you want to shut down these assets and this is what you get paid on the day we make that decision, I might invest in that product.

**Robert Kwan**

Got it. Okay. And I can just finish here with improving free cash flow and how you're thinking about coal availability. So in 2016 you were below target, but really just more so looking forward. Is 87 percent really where you want to be, given the new coal regs? And do you have the ability to further optimize the capital versus availability curve?

**Donald Tremblay**

So I think that target is probably appropriate like between now and ramping down over time probably. Past 2020 the number is different, for sure, because it's more like merchants. And you have to understand that the availability has less value when price is \$20 than when price is \$60, so that's the other thing that you have to have in the back of your mind when you're looking at availability.

**Robert Kwan**

Okay. That's great. Thank you very much.

**Operator**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



March 3, 2017 — 11:00 a.m. E.T.

TransAlta Corporation 2016 Fourth Quarter Results Conference Call  
and Webcast

The next question is from Charles Fishman from Morningstar Research.

**Charles Fishman** — Morningstar Research

Good morning. Dawn...

**Dawn Farrell**

Charles, you're—

**Donald Tremblay**

We lost you.

**Dawn Farrell**

We lost you.

**Operator**

Charles Fishman, your line is open.

**Charles Fishman**

I'm sorry. Dawn, let me repeat that. I know that your focus is on Alberta ...

**Jaeson Jaman**

Operator, can we just move to the media calls? It seems that Charles has a communication issue there.

**Operator**

And as a reminder to ask a question, press \*, 1 on your telephone keypad.

At this time, we have no additional questions. I will turn the call back over to the presenters.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



**Jaeson Jaman**

Thank you very much, and we'll end the Q4 call.

**Operator**

This concludes today's conference call. You may now disconnect.

\*\*\*\*\*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »