FINAL TRANSCRIPT

TransAlta Corporation

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PRESENTATION

Operator

Ladies and gentlemen, good morning. My name is Simon, and I will be your conference Operator today. At this time, I would like to welcome everyone to the TransAlta Corporation First Quarter 2020 Results Conference Call. All lines have been placed on mute to prevent any background noise.

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

Miss Chiara Valentini, you may begin your conference.

Chiara Valentini — Managing Director, Strategic Finance and Investor Relations, TransAlta Corporation

Thank you, Simon. Good morning, everyone, and welcome to TransAlta's first quarter 2020 conference call. With me today are Dawn Farrell, President and Chief Executive Officer; Todd Stack, Chief Financial Officer; John Kousinioris, Chief Operating Officer; Brett Gellner, Chief Development Officer; and Kerry O'Reilly Wilks, Chief Legal, Regulatory and External Affairs Officer.

Today's call is webcast, and I invite those listening on the phone lines to view the supporting slides that are currently posted on our website. A replay of the call will be available later today, and the transcript will be posted to our website shortly thereafter.

As usual, all of the information provided during this conference call is subject to the forward-looking statement qualification set out on Slide 2, further detailed in our MD&A, and incorporated in full for the purposes of today's call.

All amounts referenced during the call are in currency, unless otherwise stated.

The non-IFRS terminology used, including comparable EBITDA, funds from operations, and free cash flow, are also reconciled in the MD&A for your reference.

On today's call, Todd and Dawn will provide an overview of the quarter's results, along with expectations for balance of year 2020. After these prepared remarks, we will open the call for questions.

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

Dawn Farrell — President and Chief Executive Officer, TransAlta Corporation

Thanks, Chiara, and welcome, everyone, to our call today. Today I'm going to make a few comments on our first quarter and our outlook for 2020. Of course, Todd will take you through the details. I'll come back for a short period after to talk about how we're doing against our priorities for 2020, and I'll also give you some insight into the exceptional job that our employees are doing as they respond to this COVID-19 virus.

Overall, the results for the quarter were solid and in line with our expectations. The quarter did demonstrate the strength of our operations, our contractedness, and our portfolio diversification. And you'll see today from Todd that we continue to have strong liquidity, and that we will achieve our goal of reducing our senior recourse debt to 1.2 billion by November.

In the first quarter financially, we delivered 220 million of EBITDA and 109 million of free cash flow, or about $0.39 a share. These results were ahead of 2019 by 18 percent on a per share basis.

We achieved strong availability and safety performance. The entire fleet had an average availability of 92.8 percent for the quarter, and we achieved safety results of 1.18 on our Total Injury Frequency rate, which are really exceptional results.

And we accomplished those strong operational performance while also changing many of our frontline operating maintenance and construction protocols to keep our people safe from the COVID-19 virus. On March 12th, we began operating with nearly 650 people in their homes who, frankly, never missed a beat. So far our protocols have kept people safe from the virus, which is a new priority for us as we move through the rest of 2020 and into 2021.

We were opportunistic during the quarter with our NCIB, and we returned $9 million of capital to our shareholders through our share buyback program. And we ended the quarter with continued strong liquidity sitting at 1.7 billion, which includes approximately 340 million of cash.

We do have the necessary funding in place for our 2020 bond maturity later this year, and we have a number of unencumbered assets to progress on our long-term financing of our growth plan. So everything is just moving along in the direction that we want it to.

Our strategy remains unchanged, and our growth team continues to focus on delivering our pipeline of investments regarding our Coal to Gas, our wind, and our cogeneration projects. And we're on track to complete the Sun 6 conversion in 2020 and the Keephill conversions in 2021. And finally, we have commenced construction on Windrise and WindCharger.

We also, in the quarter, announced that we furthered our gas supply strategy here in Alberta, so that we could support our conversions—additionally support our conversions—by announcing the sale of the Pioneer Pipeline to gain greater access to the NGTL network.

And as we look forward to the balance of the year, we continue to have confidence in our 2020 free cash flow guidance.

Now, through April and the first part of May, we have observed lower power demand, and that is weakening Alberta power prices. However, we have a diversified fleet by fuel and by region, and we continue to benefit from our portfolio's high level of overall contractedness.

You'll see today that our team has also done an exceptional job to protect cash flows through our hedging strategy. And today, as we reiterate our 2020 free cash flow outlook, and we remain confident that our dividend is well funded, you'll see why we have that confidence.

Just looking at our strategic priorities. Despite the changes in this new environment that we're all living in—I think this is the first time that we're delivering this quarterly call while all being separated from our home offices—our key priorities are the same as reported to you in January, but we have made an addition. Due to COVID-19, we have added a sixth objective, which now underpins everything we do. And it's keeping TransAlta people protected and resilient under the new reality of COVID-19. And of course, we are essential workers, so it's critically important that we do that.

I will speak more specifically, after Todd's review of the quarter and our outlook for 2020, on what this objective entails. Your TransAlta team has worked extremely hard to put in protocols to keep our people and our communities safe, and keep the Company moving ahead in a very sure-footed way. It's quite impressive, and their work will build your confidence that our objectives can be achieved while keeping our people safe and healthy.

So with that, I'm going to turn it over to Todd, and he'll get into some of the details in our Q1 financial results.

Todd Stack — Chief Financial Officer, TransAlta Corporation

Thank you, Dawn, and welcome to everyone on the call. I'll start by reviewing the financial highlights on Slide 5.

Results for the first quarter of 2020 were strong and were indicative of the resilience of our operations, our contractedness, and our portfolio diversification. During the quarter, we generated 220 million of EBITDA, which was in line with the same period in 2019, and free cash flow improved by 15 percent year over year to 109 million in Q1 versus 95 million last year.

Strong performance in our US Coal and Wind and Solar segments was offset by lower EBITDA at the Canadian Coal and Energy Trading segments and higher corporate costs driven by impacts of hedging our long-term incentive plans. We also had strong foreign exchange gains in the quarter that were driven by hedges on our US and Australian business operations.

Overall, free cash flow per share was $0.39 in the quarter and exceeded 2019 results by 18 percent, which was in line with our expectations.

Alberta power prices in the quarter averaged $67 per megawatt hour and were consistent with the first quarter of 2019, as both years experienced below-average temperatures. The important thing to note is that the below-average temperatures and subsequent peak pricing we experienced in January, which averaged $120 per megawatt hour, heavily affected the average price for the quarter. Both February and March settled relatively lower at $39 per megawatt hour on average.

For the remainder of 2020, we anticipate weaker power prices for Q2, as we expect to see continuing reduced demand related to COVID-19, as well as the continued changes in operations for Alberta oil and gas producers.

However, we are completely hedged for Q2 and partially hedged for Q3 and Q4, which protects us from these low prices. If power prices begin to recover as the economy moves to the next phase of living in the new normal, we could see cash flows at the higher end of our range.

We had strong operating performance across the generation fleet. Our Generation segment cash flow improved year over year by 17 percent. This was driven by strong performance from our US Coal segment and the contribution from the Big Level and Antrim Wind assets, which were commissioned at the end of 2019.

Canadian Coal EBITDA declined by 19 million relative to 2019, primarily for generation in the segment. This reduction in generation was due to the planned outage at Sheerness to convert the facility to dual fuel, lower contracted generation curtailment, and lower market demand.

Revenue per megawatt hour from the Canadian Coal segment increased to $65, and gross margin was approximately $24 in the quarter. Gross margin was similar to 2019, as the slightly higher revenue per megawatt hour received this year was offset by modestly higher gas prices and the fixed coal cost being spread over lower volumes.

The US Coal segment saw a return to normal results for the quarter and was substantially higher than the first quarter of 2019. In addition, we benefitted from the strengthening of the US dollar relative to the Canadian dollar. For the remainder of the year, we anticipate strong results for the segment, as the majority of our production is hedged.

Results in the Canadian and Australian Gas segments and the Hydro segment were in line with 2019 and as expected.

Results from the Wind and Solar segment increased by 6 million compared to the same period in 2019, due to the addition of the Antrim and Big Level wind farms, timing of environmental attribute sales, and higher production. These increases were partially offset by lower pricing in Alberta.

Energy Marketing results were lower than last year and in line with expectation, as we had a very exceptional performance in 2019 from the US west markets. Their results were consistent with historical performance and are on track to meet annual expectations.

Our Corporate segment incurred a year-over-year unfavourable impact of 22 million, primarily due to the realized losses from the total return swap. As our share price, along with the entire market, declined during the quarter, we realized losses on this hedge, and this compares to a significant gain that was settled in Q1 of 2019. After adjusting for the impact of the total return swap, our Corporate segment costs decreased by 2 million compared to 2019.

For the quarter, our segmented cash flow of 187 million was in line with 2019. As I discussed earlier, the Company generated consolidated free cash flow of 109 million, an increase of 14 million compared to the same period last year. This was achieved by strong performance across the segments, realized foreign exchange gains, and lower distributions paid to subsidiaries' non-controlling interests.

Given the recent impacts from the COVID-19 pandemic and global oil price decline, there's been a heightened focus across industries on debt levels and liquidity. Liquidity at TransAlta is very strong and has been for some time. We ended the quarter with access to 1.7 billion in liquidity, including approximately 340 million in cash.

In addition, we are scheduled to receive 400 million from the second tranche of financing from the Brookfield investment in the fourth quarter of 2020, and we have access to additional capital through potential project financing of existing assets that are currently unencumbered. This strong liquidity position sets us up well in 2020 to meet our upcoming bond maturity, fund our Coal to Gas program, and advance our renewable development projects.

Our dividends remain sustainable at the current levels, and we have no concerns over maintaining it in the current environment.

In regards to our share buyback program, we will continue to opportunistically … we will continue opportunistically and repurchase and cancel shares as we see prudent within our capital allocation strategy for 2020.

As you can see on Slide 9, over the past few years, we've been focused on reducing our corporate debt levels in preparations for entry into a fully merchant market in Alberta. This positions us well for the current environment, and we are comfortable with our current debt levels. We continue to have the capacity to advance our strategy to convert our thermal fleet to gas and to develop renewable and on-site generation projects.

On Slide 10, the last topic I want to discuss is our long-term contract and hedging levels. In the chart on the left, we've illustrated how our diversified and contracted asset base contributes to total EBITDA. This EBITDA is generated from our US, Australian, and Eastern Canadian assets, along with the PPA assets and existing hedges in Alberta. This is in addition to the 220 million of EBITDA already generated in Q1.

As you can see from the chart on the left, approximately 90 to 95 percent of our EBITDA is unaffected by power prices in Alberta. The remaining 5 to 10 percent is exposed to market prices, and if we experience higher than anticipated power prices, we retain additional opportunity to capture value from our merchant fleet.

Specifically looking at our merchant exposure in Alberta, 70 percent of our thermal baseload generation is hedged at about $52 per megawatt hour for the remainder of the year. For Q2, we are fully hedged, which provides the Company protection from the near-term fluctuations in prices related to the COVID-19 pandemic and weaker energy demand.

Consistent with our overall hedging goals, we are continuously layering in to additional hedges and are typically more heavily hedged near term. As we look into the back half of 2020, we will layer on incremental hedges as available, and closely monitor the recovery in power prices to take advantage of this with our open exposure. At these current hedge levels, we estimate that a $1 change in power prices would result in an approximate $3.5 million change in EBITDA.

For the full year 2020, we expect power prices to settle in the 45 to $53 range, which is lower than our expectations communicated in January. Based on this lower price level, we are now tracking EBITDA to be in the lower half of our guidance range. However, we also expect sustaining and productivity capital to be at the low end of our range. These reductions, combined with our Q1 results, give us confidence in achieving our full year free cash flow at the midpoint of our outlook.

With that, I will pass the call back over to Dawn to provide some final thoughts on our objectives for the remainder of the year.

Dawn Farrell

Thanks, Todd. That was excellent. So let me spend a couple of minutes on how we’ve had to adjust our operations to deal with COVID-19.

So first and foremost, I’d really like to thank all our frontline employees and staff and contractors across Canada, US, and Australia for their dedication and their ability to adapt very, very quickly to many new protocols that protect them and their families while they continue to come to work every day and make sure that our facilities run and support the customers and the economy here in Alberta and across all of our operating regions. They are some of the unsung heroes behind the scenes in this crisis.

At TransAlta, we initiated our pandemic plan on March 9th, and by Monday the 16th, we had moved nearly 650 people home, where they continued to work as if nothing really had happened. Our key principle was to get as many people out of the plants as possible so that our essential frontline operators, maintainers, and engineers would have as few interactions as possible to deal with.

We quickly modified work schedules and physical distancing practices, we instituted health screenings, we enhanced our cleaning arrangements, we changed travel schedules, we initiated a travel ban, and we put in place quarantine practices to ensure the health and safety of our employees. Our employees quickly adapted to the new norm and embraced the challenges and the new health and safety practices this global pandemic has created.

Today, all of our operations are running as they did before COVID and, currently, we are grateful to report no cases of COVID-19 in our company. We are monitoring daily recommendations by public health authorities related to all our operating regions, and we are adjusting operational requirements as required.

And we have commenced formulating plans, as we look towards a potential return-to-office phase of this pandemic. We're preparing very detailed plans for Phase 2, where the economy begins to restart, even though a vaccine or a widespread testing program isn't yet available.

We believe we'll be operating in some sort of distributed working arrangement for, potentially, another 18 months. And given the strong response of our employees to adapt to these new practices while running the Company, we are not experiencing any noticeable changes in productivity. We do see some slippages occurring in construction and our outages, due to some of the force majeures that have come as the result in supply chain disruptions. However, these are very minor, and we've been able to easily adapt our plan.

And so while we, like many others, cannot fully predict what the future will bring, we do have a lot of confidence that our team can adapt to whatever is needed to keep our staff safe and working and our operations solid.

I want to turn now to talk about growth. Despite the challenges that COVID-19 has brought forward in some of the supply chain, we are still moving forward with our growth and our Coal to Gas construction pipeline, and we’re pretty satisfied with the progress we’re making.

WindCharger, our 10-megawatt battery project, started construction in late March and is estimated to reach COD by sometime in July of 2020. Windrise also commenced construction in April, with all the necessary measures in place to continue to do work there, and it’s expected to be fully commissioned by the second half of 2021.

Skookumchuck is also underway and is now forecasted to reach COD in the second half of 2020, mostly due to weather and some other factors that impacted their construction timeline. We continue to have the option to buy 49 percent of that project upon COD, which we think will be later this year, and we won’t have any cash outlays until the client indeed does reach its commercial operation.

We anticipate closing the acquisition of the Michigan cogen project in this quarter. This marks our first cogeneration asset in the US, and we do see some opportunities to expand and establish a foothold in this important market segment for us.

And we are, of course, in line to complete the conversions for the Keephills Units 2 and 3 in 2021, and we are finishing off the Sundance Unit 6 this year. We do see—we have announced to the market, a delay up to a couple of months for the Keephills units next year, as we look at how the pandemic is affecting our supply chain.

We did receive regulatory approval from the Alberta regulator for our Sun 5 and Keephills 1 repowering projects, as we look at those units becoming combined-cycle units. And of course, we are still very much forecasting a 2023 COD for the Sundance 5 repowering.

And then finally, our SemCAMS Kaybob project, which we announced earlier, continues to advance as we obtain permit approval from the AUC. And we're collaborating with our customer there to determine if there are any adjustments to plan, given some of these recent events.

As we look at our 2020 objectives, despite the challenges this health crisis has stressed upon us, we see that we can continue to deliver our strategy. We will advance our Clean Energy Investment Plan that we announced last September and, of course, we retain confidence in our ability to generate cash flow in 2020.

Our construction projects are well underway and now with the necessary safety measures to protect our team against COVID-19. And we have the added support because we have the necessary funding in place for everything that we're doing.

We are staying the course of delivering our Clean Energy Investment Plan and transitioning our fleet here in Alberta. Moreover, as we look at 2021, our teams are working hard to prepare for the merchant market, and we have an excellent (phon) hold as we go into that.

So at this point in the year, everything is tracking to plan, all things considered. And I won't give you any more comments.

I'm going to turn it back to Chiara, and we'll open up for the question-and-answer session. Thank you.

Chiara Valentini

Thank you, Dawn.

Simon, would you please open the call up for questions from the analysts and media?

Q&A

Operator

Certainly. At this time, I would like to remind everyone that in order to ask a question, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

And your first question comes from the line of Maurice Choy with RBC Capital Markets. Your line is open.

Maurice Choy — RBC Capital Markets

Thank you, and good morning. Just to kick off, you mentioned that the quarterly results in Q1 were in line with your expectations and, obviously, you've reaffirmed your 2020 guidance despite the changes in the Alberta market. Todd, you mentioned that there's some cost levers you can pull. Could you elaborate a little bit more about that? And any other tailwinds you might see for the remainder of 2020?

Todd Stack

Sure, I could. Good morning. It's—

Dawn Farrell

Go ahead, Todd.

Todd Stack

—yeah. Yeah. It's Todd here. Yeah. So there are a number of levers that we can look to pull. And I did mention in my call, one of the areas in our sustaining capital and some of our productivity capital. So there are a number of areas in there. Again, nothing that would impact the overall delivery of the year, or the delivery of our strategic priorities, but there are some just more discretionary projects in there that we can look to defer and/or—and/or cancel outright, so. And so I have mentioned the guidance on the sustaining capital would be at the lower end of what we provided back in January.

Maurice Choy

Thanks. And just to follow up on that, as I look at Energy Marketing, you previously had a gross margin guidance of 75 million to 85 million. Is that an area where you would still reconfirm your view? And, as well, the total return swaps, given the share price movements—would that be some type of reversal come into Q2, that could help EBITDA as well?

Todd Stack

Yeah. So for Energy Marketing, definitely, they are on track. I mean, they had a good quarter. I think was a healthy EBITDA; less than last year, but they definitely are on track for the year, so no concerns on the Energy Marketing team.

And you're right on the equity swap. We have seen a recovery in our price from the March 31st level. So that will normalize over time and, again, that is an economic hedge for the Company, for some of the incentives that are paid out in shares.

Maurice Choy

Great. And just to finish off, I could see that you've provided the information on liquidity, as well as your market condition outlook. Was there any consideration about potentially deferring capital spend? Or even needing to pivot a little bit of your CapEx strategies?

Todd Stack

Yeah. And I think you're speaking more to the Coal to Gas work or some of the wind farms. So I would say no. Like the Sun 6 outage to convert it Coal to Gas is a high priority for the Company. I see it as one of the best projects that we have, and so that's on track. So no—real (sic) [really] no discussion about deferring that.

Dawn mentioned the K2 and K3 deferrals. That's really driven off of, as she mentioned, supply chain issues, not about our desire to extend that. So those are definitely top-priority projects.

And as far as the renewable projects, again, the Skookumchuck facility and the Windrise project and WindCharger—again, very strategic, no discussion about deferring those, other than what needs to be done to manage through the supply chain issues, which are not material. It's moving things around a little bit here and there but, basically, still high priority and still a main focus of the Company.

Maurice Choy

I guess, when you say it's strategic, is it fair to say that in the short term, there may be volatility, but your long-term outlook of the market has remained unchanged?

Todd Stack

Yeah. Absolutely. I mean, Q2 has been settling soft here, which is not—again, Q2 is typically a lower quarter. But long term, we see the market being very healthy.

Maurice Choy

Great. Thank you very much.

Operator

Your next question comes from the line of Rob Hope with Scotiabank. Your line is open.

Rob Hope — Scotiabank

Hello, everyone. Maybe a follow-up to Maurice's question. Just when you're taking a look at the 2021 contract or forward price right now, how are you thinking about layering on hedges there? As well as, what do you think a recovery in demand looks like in Alberta?

Dawn Farrell

Yeah. If we knew the answer to that, we probably wouldn't have to run these companies. But I think, as we look ahead, we think that the forward curve—as you know, it's very thinly traded anyway, as you look out that far. I think it reflects some recovery in it already.

And as we go through the next couple months here, I think it really depends on how quickly you get away from some of these supply shut-in situations, here in Alberta. So a lot of the recovery in the power market will likely be less about oil and gas prices, and more about the ability of people just to get their supply out of the province into the marketplace.

You'd have to expect, as you look ahead and economies start to recover from this, that there'll be more transportation demand, both for driving and some flying. And that would underpin additional upside. So we'll have a very measured approach to how we leg into 2021, and we'll be watching carefully as—we'll be watching our customers carefully and their response to how transportation demand picks up as we go forward.

Rob Hope

And then, would you have any hedges for 2020 currently?

Dawn Farrell

We have a small number of hedges for 2021—

Todd Stack

2021.

Dawn Farrell

—currently.

Todd Stack

Yeah.

Dawn Farrell

Yes.

Rob Hope

Okay. Thank you for that.

And then just in terms of a, kind of, allocation of capital question, the Michigan and the US cogeneration strategy. What returns on capital are you looking for there? And what size of, kind of, an opportunity set do you think you could see over the longer term? And could there be additional opportunities in 2020 and 2021?

Brett Gellner — Chief Development Officer, TransAlta Corporation

Dawn, do you want me to speak to that? Or—

Dawn Farrell

Yeah. Generally we—yeah. Go ahead, Brett.

Brett Gellner

—sorry. Go ahead.

Dawn Farrell

Yes. Go ahead.

Brett Gellner

Yeah. Just we—obviously, we can't speak about the Michigan cogen. But as we talk about cogen, not just in the US but also here in Canada, we're going to be looking for, probably, double-digit type returns. All those projects are highly contracted, as you know. It's a sweet spot for the Company. We operate a lot of cogen, and we see it as a very good opportunity.

But again we’re, as always, going to be very disciplined in how we pursue those but certainly—it’s tough to give you a market size, an opportunity size. But as others are having to cut back capital, one area we’re seeing them not pursue is the cogen side, which might present an opportunity for a third party like us to come in and work with them.

Rob Hope

All right. Thank you.

Operator

Your next question comes from the line of Patrick Kenny with National Bank Financial. Your line is open.

Patrick Kenny — National Bank Financial

Yeah. Good morning, everybody. Just on Brookfield surpassing its 9 percent ownership commitment—almost 12 percent now, I believe—and I guess that’ll continue to move up naturally as you execute your NCIB.

Can you comment on whether or not this level of ownership has any impact on your willingness to continue to buy back the $80 million of shares this year? And, I guess, next year as well? And also maybe just remind us if the hydro agreement contemplated any maximum ownership level or any other ownership restrictions?

Dawn Farrell

Yeah. So I’ll take the first question, and then I’ll turn it to John for the second question.

So I think we’re just looking at the 80 million share buyback in our capital allocation as something that we can very opportunistic about. So a lot of it depends on where the prices are. For sure, currently, at the price we’re seeing in the market today, even with Brookfield increasing their current—or currently increasing, there's still great opportunities to buy TransAlta stock and for our shareholders, so we'll continue to look at that.

So I think, Patrick, you can just think about, as we look ahead, in the current pricing environment, continuing to buy back shares makes sense for us.

And, John, do you want to talk about the Brookfield agreement?

John Kousinioris — Chief Operating Officer, TransAlta Corporation

Yeah. Hi. It's a good question, and I'm just going from my memory. I think there is a cap on the ownership that they have in the Company, up to 20 percent that they've—there's a standstill that's included in that, but I'm going from memory, and we can double-check that and get back to you.

Dawn Farrell

Yeah. I think, John, it's—

Patrick Kenny

That makes sense—

Dawn Farrell

—slightly less than 20. It's—

John Kousinioris

Just at 20. Yeah.

Dawn Farrell

—just over 19 percent. Yeah.

John Kousinioris

There you go.

Dawn Farrell

Nineteen's about right. Yeah.

John Kousinioris

Yep.

Patrick Kenny

Okay. Great. And maybe for Todd, if you could perhaps provide just a bit more granularity on the funding plan with respect to repaying or refinancing the 2022 bonds? I know it's still a ways out, but just given how shaky the credit market's been over the past couple months, especially for non-IG credits, if there is a plan to get back to investment grade between now and then?

Todd Stack

Yeah. Yeah. For sure. I mean, 2022, as you say, is a long ways out there. We've got a lot of runway ahead of us. We had always anticipated refinancing some—well, a portion of that bond when it comes due. And what you've seen in the last couple of bonds that we've matured, we didn't usually wait right until the maturity date. We would usually front-run it, and then with some kind of a financing, and then either do a call for those bonds, or just wait for it to naturally mature.

So I see that kind of working out in the same—so we'll have a lot more details on that in 2021, to think about how refinancing—we're going to refinance that. But again, our plan over the next couple of years is to be not having to lean on additional debt demands at TransAlta to fund our Coal to Gas project and our repowering projects.

Patrick Kenny

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

Operator

Your next question comes from the line of Ben Phan with BMO. Your line is open.

Ben Pham — BMO

Okay. Thanks. Good morning. I just want go to the Pioneer Pipeline sale and clarify, first off, the timing of that sale. And also, what are you—what are you gaining, really, from that sale versus the upside that you are giving up? Or just try and give a bit more colour on the pros and cons of what's going on there?

Dawn Farrell

So, Brett, do you want to take that?

Brett Gellner

Sure. Yeah. So and timing is—obviously, TC Energy is federally regulated, as you know, so it has to go through CR approval, and that takes time; underway. But certainly, we just have to follow that timeline and take their guidance on that. We'll be supporting them through that process.

I mean, we think it has a lot of benefits. I mean, first of all, as you know, the NOVA system is very liquid and deep. So this pipe will be post-sale of closing connected into one of the main laterals of the NOVA system and gives us access to every single basin in Alberta and BC. So it just deepens our access.

We continue to have second pipe in there, so back to our original strategy was to always have two pipes for reliability and diversification. So we've achieved that and we get some proceeds out of it, and we can redeploy those proceeds elsewhere.

Ben Pham

Okay. And your pricing it's just NPV-neutral?

Brett Gellner

Pardon me?

Ben Pham

And then when you look at—and the sale's largely NPV-neutral to you? Because you a slide previously of EBITDA ramping up over time, but I guess you flipped it?

Brett Gellner

Yeah. I mean the—right. Yeah. Yeah. Ben, certainly the ramping-up was dependent, as we outlined, how much gas would flow specifically onto that line directly and as a partner we would share in that. But yeah. I mean, we're giving that up through the sale. But as you know, the proceeds are a fair level of proceeds from our perspective, plus we're getting all these other benefits that I mentioned.

Ben Pham

Okay. That makes sense. And then on your hedging, I mean, thanks a lot for providing all that detail there. It's given us greater confidence in your guidance. I'm just wondering going forward then, just as a regular policy, are you planning to keep providing this? Because I know you've really had limited disclosure on this in the past and this level of detail because of competitive reasons, so is this more of a one-off situation? Or is this something we should expect going forward?

Dawn Farrell

I think that we'll evaluate that as we go forward. I think for sure if we believe that giving hedging information will reduce our competitiveness, we won't be giving it. But I think everything that we've given you here is more behind us as opposed to ahead of us. And we thought it was critically important, especially when you look at some of the demand disruption that's taken place in Alberta here in Q2, we thought it was important for people to see that that's not going to factor into how we see our year.

Ben Pham

Okay. And then maybe one last item for me is are you worried at all around the gas price curves in future years as you add Coal to Gas transitions?

Dawn Farrell

Yeah. I mean, when we did our—again, let's—somebody earlier talked about—would just talk about the long-term strength of our strategy. Our strategy is predicated primarily on a forward view of carbon pricing that goes from $30 this year to 40 next year to 50 the year after and then starts to climb potentially after that. And if you look at the way the carbon policy works in Canada, it just gets more and more aggressive relative to coal. So you have to—you can't just look at gas price in absence of looking at carbon policy, and you can't just look at—you've got to look at it relative to the short term and the long term.

So in the short term, some increase in gas prices actually improves margins for the coal plant. As you know, Alberta doesn't typically trade relative to gas pricing; it's more of an event-driven market. But there is some flow-through on that, and we still have plants that are running on coal. We will have K3, which will be dual fuel. And then in the longer term, as you start to really pressure test the strategy with carbon pricing, even higher gas prices have always been more economic, so.

And we also know because we have gas people on our board that when you start to see upward—you're seeing, for example, today there hasn't really been a lot of a stampede towards drilling dry gas because people have been getting gas out of the associated—as an associated product out of liquid. But when you start dangling some higher gas prices in front of Alberta gas producers, they go out and find gas.

So we think it's a very competitive market. Higher pricing will bring on more supply. And so, net-net, as we did all the calculus looking over the next 20 years, we still continue to believe that a gas strategy will outperform a strategy of trying to stave off higher and higher carbon prices.

Ben Pham

Okay. That's great. Thank you.

Operator

Your next question comes from the line of Mark Jarvi with CIBC. Your line is open.

Ollie Primak — CIBC

Hi, guys. This is actually Ollie Primak on the line for Mark Jarvi. I just had a few questions for you, and a few of them have already been answered, so I'm thinking maybe I can pass it on over in just a minute.

Just with respect to the hedges that you've discussed, given where forwards are, and which are close to the average hedge price that you already—that you currently have, is there an opportunity or any interest, from your perspective, to add more hedges for the balance of 2020?

Dawn Farrell

Yeah. No. It's just the way the Alberta market trades. I mean, there is current prices in the hedging market, and then there's liquidity in the hedging market. So as we see—as liquidity opens up, we will definitely be layering in hedges at various prices as we go forward.

Ollie Primak

Okay. Perfect. And with respect to the delays at Windrise and Skookumchuck, how do you expect those delays to impact the timing of potential drop-downs with—or to RNW?

Dawn Farrell

We continue to—we believe that we can continue to work with the RNW Board to think about what the appropriate drop-down schedule will be, to sort of maximize value for both companies.

So we've shown in the past that they will take some construction risk, if we think that's the right value exchange. So it could delay it slightly in terms of our expectations, but it doesn't change the path that we're on.

Ollie Primak

Okay. Perfect. I think that's it for us, actually. Thank you for your time.

Dawn Farrell

Great. Thank you. Yeah. Thank you.

Operator

Your next question comes from the line of Andrew Kuske with Credit Suisse. Your line is open.

Andrew Kuske — Credit Suisse

Thank you. Good morning. With some new generation in Alberta being pushed off in time, does that really increase the envelope of time for your market transition? And I guess, more directly, does it positively change the return profile on your Coal to Gas Conversions?

Dawn Farrell

Yeah. I mean, Andrew, for sure—so let me talk about that in two ways. So in terms of changes our time for our transition, we continue to try to accelerate every aspect of our transition that we can. So as we prepare for 2021, and we're looking at, what does that mean for the Company as a whole, we just absolutely are working hard to accelerate everything we can.

So our transition continues to track, and we continue to try to find ways to go even faster. In terms of the reduction in generation coming from cogen, because of people having to focus on their own businesses, that's good news. That can only be good news for us, in terms of the value.

Andrew Kuske

Would you care to quantify the value that you see from that?

Dawn Farrell

Well, there's lots of moving parts here, right? We need a little bit—a couple of more quarters, quarter by quarter, to see what the transition out of COVID looks like before we get bold enough to start to quantify that value. But just generally, if you don't have the supply in the market, and the demand starts to recover to where it was, it's going to add a couple of dollars a megawatt hour to our pricing assumptions.

Andrew Kuske

If I could just maybe have one follow-up, and it relates to what you're saying. Obviously, it's a dismal economic environment everywhere. But when you look at labour rates on your Coal to Gas Conversions and just productivity—because obviously, the environments change with—COVID-related construction practices are just different. How is that impacting scheduling? And then also, just costs?

Dawn Farrell

Yeah. It's funny. There are some additional costs for sure, as you get PPE for people and as you have to take—I mean, when people show up at the gate, they have to—they have to sign papers, and they have to have their temperature taken, and there's a lot more procedure that goes into the place.

But we're actually finding that it just reinforces our really strong safety culture, and a really strong safety culture is generally more productive because you tend not to do things twice. You tend to be very careful about how you do your work, very careful about how people work with one another, a lot more planning. And generally, if you've been around power plants or construction projects, the key has always been planning. The more planning there is, the better you have all your stuff ready to go. The more organized and disciplined the work teams are, generally, the construction goes better.

So we do believe that there is some—for sure, there's deflation going on, as you know, in this environment. And I do think that potentially benefits us as we go forward. But I currently am not seeing the additional cost or protocols of COVID changing our productivity.

And even when we look at our office workers, I mean, we're finding some tremendous productivity coming out of using this IT technology. For example, as we're—we've been able to quickly adapt to even with our investors like you guys, using IT technology to meet with people. Well, that takes us off planes. It takes us out of airports. It allows us to have more time to focus on the business.

So at this point, I'm just not seeing the additional costs adding drag. I'm seeing them actually allow us to get more planned, and more thoughtful, and a little bit better at what we do.

Andrew Kuske

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

Dawn Farrell

Thanks, Andrew.

Operator

Your next question comes from the line of Charles Fishman with Morningstar. Your line is open.

Charles Fishman — Morningstar

Thank you. Dawn, on Slide 12, you've added a footnote that talks about Keephills 1 repowering being delayed beyond the 2023 time frame. Yet, when I look at the similar slide at the Fall Analyst Day, it was always 2023–'24. So was that footnote added just for clarification on the slide? Or is there—did something happen, I guess, if you could provide colour?

Dawn Farrell

Yeah. So nothing happened. We always said that we would—so Keephills 1, remember, right now, we haven't decided if we're going to convert it in a simple conversion or just hold onto it as a coal unit and then make it a combined cycle plant.

And so we had already—we'd always anticipated that we would get the permitting for both Sun 5 and Keephills 1. When we announced the Kineticor slides—or sorry, turbines, we've pushed those to Sundance Unit 5. We always had Sundance Unit 5 for 2023, and then Keephills 1 would follow in 2024 or 2025.

So nothing really has changed. And maybe, Brett, is there anything you want to comment on in terms of that footnote? Because I—everything is tracking as per what we, I think, talked about last September.

Brett Gellner

Yeah. No. For sure. Nothing's changed and as Dawn says, both are permitted. But our focus is on the 5 repowering right now, and then we'll evaluate, as Dawn says, K1 as we kind of head into next year.

Charles Fishman

Okay. So next year would be final investment decision, you would anticipate?

Brett Gellner

On K1?

Charles Fishman

Yes.

Brett Gellner

No. No. Well, can't say no, but I mean, look. I mean these things—remember, these repowerings are not like the simple conversions, which can be done relatively quickly. So these are longer time frames in terms of EPC contracts construction.

So, yeah. We can't commit to when we'll make that decision. I'm just saying, as we kind of make our way into next year, we'll be really looking at K1 in terms of, as Dawn says, what our decisions are—a simple conversion, repowering, et cetera. But we wanted to get it permitted, which we have, just so that it's ready if we want to pull the trigger there.

Charles Fishman

Okay. Got it.

Dawn Farrell

Yeah. If—

Charles Fishman

Stay safe, guys.

Dawn Farrell

—if you look—yeah. If you look at the cash, it's about $700 million for a conversion compared to 30 million, $40 million for a simple—just a simple conversion.

So with Keephills 1, we've got it sort of sitting to the side. We'll decide whether or not we do a simple conversion on it, on its way to being a combined cycle. Or we'll just simply run it as a coal plant and then convert it to a combined cycle midway through the decade.

So it's a pretty big capital decision. So that's why we wanted to get our three simple conversions done and then Sundance 5 really moving along. And then we'll look at pricing in the market and determine if we want to make a capital allocation to Keephills 1. So that's just—so you won't—you'll start to see discussion of that decision-making in 2021. And I think then we'll give you a sense of what our rationale is as we go forward.

Charles Fishman

Okay. Thanks for the additional comments. That's all I had. Stay safe.

Dawn Farrell

Thank you. You too.

Operator

Your next question comes from the line of Naji Baydoun with Industrial Alliance Securities. Your line is open.

Naji Baydoun — Industrial Alliance Securities

Good morning. Just wanted to go back to an earlier comment on the cogeneration strategy. I appreciate acquisitions probably slow down this year, but are you still thinking about doing maybe one or two deals in this space every year? And how much capital could you dedicate to these acquisitions?

Dawn Farrell

Yeah. I would say that, I mean, again, it's more opportunistic than it—the thing I've learned after 35 years is if you start setting targets like one or two deals and you try to get committed to that, you'll start dropping returns. So we see a lot of cogeneration projects and at the right return we have the capacity to do one or two deals a year, and we would certainly want to do that.

And as Brett said earlier, as people—cogeneration's always the same. Everybody wants their own cogeneration project until they need their cash for their own businesses, and then they start to look at partners. And this is a good time for that. People will need partners on cogen as they refocus on their own businesses. And so to the extent that we can get the right returns, we definitely have the capacity to add more cogeneration and will. And by opening up and having a foothold now, even though it's small in the US, it just gives us better brand recognition in that market and is opening up more phone calls that are—that we can take and start to look at where those opportunities are.

The other thing I should say is we do expect the ESG framework to be quite strong coming out of this. So we don't believe, even with a lot of the sort of the economic fallout of what's gone on with COVID, we don't believe that it will reduce the necessity for companies to have a very strong ESG set of goals. And that leads you well down the path to both cogen and wind and solar. It's really helpful as well in terms of our hydro assets. So we expect as that continues to see more demand for cogen and for us more opportunities to do deals at the right return.

Naji Baydoun

Okay. Appreciate that. Just maybe one other question. Thank you for the extra colour on the reasoning behind the Pioneer Pipeline sale. Just wondering if you see other areas where you could opportunistically monetize other assets in the portfolio today?

Dawn Farrell

Currently, there's not really any sort of big asset that we have where we think, okay, that's run out of road, or that doesn't have the kind of return expectation. But we definitely—we have a process where we take every single asset in the Company and fleet by fleet through the year we evaluate the returns, and we have discussions with our board on that.

So we do have a very disciplined process inside the Company for ensuring that we don't get complacent. So as we go through that process, if we see projects here and there where we think that maybe somebody's a better owner than we are, we will make those decisions. But right now, there isn't anything that stands out as either a poor performer or something that's off our strategy.

Naji Baydoun

Okay. Thank you.

Operator

Your next question comes from the line of Robert Howard with Boiling Point Resources. Your line is open.

Robert Howard — Boiling Point Resources

Hi. Thanks for taking my call. I just wanted to ask about just the gas conversions. It sounds like they're going well. Have there been any surprises in doing it? I mean, you're just started. Are they going smoothly? Do you think things are going to end up—performance will end up being better out of them? Or do you think costs will end up going down as you keep putting them in? Just sort of wanted to get a feel for what you're experiencing as you're finally doing the work on these.

Dawn Farrell

So, Brett, you want to take that one?

Brett Gellner

Sure. Yeah. As you know, our first one is here later this year, so maybe ask us that question after that. But certainly, we've got our partner. We're partners with Heartland in Sheerness. They did a conversion here already and reasonably well, especially given they did it right in the middle of the situation—the COVID situation we're in.

So, yeah. No. We don't expect any issues. The boiler conversions themselves are relatively straightforward. They've been done in the US a fair amount. And I just want to remind you that most of—all of our conversions are fixed price, so we've already entered into agreements.

So we don’t anticipate any significant change. Over time, do they change? Don’t anticipate that in a material way. The Sun 5 is still relatively early. We purchased the gas turbines already, so those are in place. Really, now, we’re in the process of getting our second balance plant and in the market for EPC contracts. So again, more of a fixed-price type contract, likely, out of that. But again, we won’t know that, and that one’s—won’t start up till 2023.

Robert Howard

Yeah. Okay. Sounds great. Thanks.

Operator

Your next question comes from the line of John Mould with TD Securities. Your line is open.

John Mould — TD Securities

Thanks. Good morning. Just going back to the drop-downs, recognizing that RNW ’s independent board members handle those discussions. I’m just hoping for a little more context on how do you factor risks resulting from COVID-19 into that discussion? Not so much general construction orders, but more the ongoing risk of equipment and construction related, that may still be difficult to quantify this far out from project COD, at least in the case of Windrise?

Dawn Farrell

Yeah. You know, I—again, I think it’s—as usual, the devil is always in the detail. And they get their advisors, and their advisors give them advice in terms of what the quantification of those risks are. And we also as—on the other side, we quantify what the risks are because we’re actually managing those projects. And I think, really, what it comes down to is whether or not at the right time you can cross that bid offer and both get comfortable that it makes sense for both sides.

And so I just find it's probably a lot more conversation and a lot more analysis in terms of what we're seeing from suppliers, and what is really going on. What we've actually found is people protect their rights, right away, because of what's going on with COVID. But as they've been working through what the real impacts are, they haven't been as bad as what I think people initially thought they might be.

So I'm not finding it difficult. I'm not finding it any more difficult than I have in 35 years to evaluate what's going on in the construction space. It looks fairly normal to me with a little bit of additional noise that you have to deal with.

John Mould

Okay. Great. And just on the PPAs themselves, are there any issues under the Skookumchuck or Windrise PPAs of not meeting the original COD dates?

Dawn Farrell

Yeah. Brett, do you want to take that one?

Brett Gellner

Yeah. No. Nothing that would change where we're at. Certainly, every PPA has certain dates in them, and whether it's—usually, an LD-type equation versus termination-type equations, but. So right now, nothing from our perspective impacts the economics of those projects. And they are—back to Dawn's earlier point, the demand for renewables, we see continuing to increase. And we're seeing companies purchase this type of power through long-term contracts to meet their own ESG, and so it's beneficial to all parties involved.

John Mould

Okay. Thanks. And then maybe lastly, just moving to Ontario. You noted on your last call, you'd made a submission to the government's contract review process. I'm just wondering if there have been any further developments on that front, recognizing that the government and the market operator have been busy with other issues there?

Dawn Farrell

Mm-hmm. John, do you want to take that one?

John Kousinioris

Sure. We did, as you say, make the submission in the province. I think there's still a state of flux there in terms of which way they're going to go in the province. I think we remain optimistic that we'll find an appropriate outcome for the contract that we currently have for Sarnia with the ISO.

Remember, that contract doesn't expire until 2025, so we've still got some time to actually see it through. But our sense is that there'll be a constructive outcome as things sort of settle down and people begin focusing on business as usual in the coming months.

John Mould

Okay. Those are all my questions. Thank you very much.

Operator

Your next question comes from the line of Chris Varcoe with the Calgary Herald. Your line is open.

Chris Varcoe — Calgary Herald

Hi, Dawn. I got on late, so my apologies if this has been asked earlier. But can you tell me, has there been any rebound in power demand in the last few weeks in Alberta? And with the gradual reopening of the Alberta economy, what's your outlook for power demand through the rest of 2020?

Dawn Farrell

Yeah. Chris, it's actually been a bit the opposite. So demand came off right away in March, and then we're seeing a little bit more of it come off, especially last week, as a number of producers are shutting in. We expect that demand distraction to continue through the second quarter here. But then as the summer comes in and picks up and as people get back, I mean, naturally a lot of demand will start to come back.

So currently, it's going down and we expect it to start to come back in the summer, especially more and more companies are talking about bringing 25 to 50 percent of their workers back starting in June. More and more people are realizing that they can use safety practices to make sure that they keep people safe and run their companies. So all of that will make a real positive difference to demand as we go forward.

Chris Varcoe

And just secondly, with the success of having people work from home is there any thoughts within the Company of maybe not needing as much office space and having people work from home permanently?

Dawn Farrell

Yes. That's a hot, hot topic around the place. I mean, for sure, there are—we've seen that there are different disciplines where there's quite a benefit to people working at home because they pick up—some of our people—for example, out at our plants, it can be difficult to get engineers to work out of the plants because they've got to drive maybe an hour out and an hour back. And if we can find some way to have them also have a home office and get some additional productivity by not having to make those drives a couple of days a week, that increases productivity and well-being for the employees and it increases productivity for us.

So we’re looking at other situations like that for some of our engineers and some of our applications programmers that are doing a lot of our big data stuff. But we also know that there’s quite a huge social element to leadership and to work and to how people organize things, which benefits by convening in person. So we do believe that we’ll have quite what we call a hybrid model, where we’ll have people in the office, we’ll have people at home, and we’ll have sort of a mix of the two as we go forward here until there’s a vaccine.

And I think probably the other thing, Chris, that we’ve learned—and I think you and I have talked about—the IT technology is pretty phenomenal. And our ability to convene online with people on the line and look at documents and talk to one another is substantially better than anything I’ve ever seen. And I think that helps us manage through this, and it also gives us new ways of working together in the future.

Chris Varcoe

Thank you.

Operator

And there are no further questions at this time. I turn the call back over to our presenters.

Chiara Valentini

Yes. Thank you, Simon, and thank you, everyone. That concludes our call for today. If you have any further questions, please don’t hesitate to reach out to the Investor Relations team.

Thank you, and have a great day.

Operator

Ladies and gentlemen, this concludes today’s conference call. You may now disconnect.