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TransAlta Corporation

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PRESENTATION

Operator

My name is Miranda, and I will be your Conference Operator today.

At this time, I would like to welcome everyone to TransAlta Corporation's fourth quarter 2021 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'd like to withdraw your question, please press *, then the number 2. Thank you.

Ms. Valentini, you may now begin your conference.

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

Great. Thank you, Miranda. Good morning, everyone, and welcome to TransAlta's fourth quarter and 2021 year-end conference call.

With me today are John Kousinioris, President and Chief Executive Officer; Todd Stack, EVP Finance and Chief Financial Officer; and Kerry O'Reilly Wilks, EVP Legal, Commercial, and External Affairs.

Today's call is being webcast, and I invite those listening on the phone lines to view the supporting slides that are 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.

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

All amounts referenced during the call are in Canadian currency unless otherwise noted. The non-IFRS terminology used, including adjusted EBITDA, funds from operations, and free cash flow, are also reconciled in the MD&A for your reference.

On today's call, John and Todd will provide an overview of the year's results, along with our expectations for 2022. After these remarks, we will open the call for questions.

And with that, let me turn the call over to John.

John Kousinioris — President and Chief Executive Officer, TransAlta Corporation

Thank you, Chiara. Good morning, everyone, and thank you for joining our 2021 annual results call. As part of our commitment towards reconciliation, I want to begin by acknowledging that TransAlta's head office, where we are today, is located in the traditional territories of the Niitsitapi, The People of the Treaty Seven Region in Southern Alberta, which includes the Siksika, the Piikani, the Kainai, the Tsuut'ina, and the Stoney-Nakoda First Nations, as well as the home of Metis Nation Region 3.

It's a pleasure today to share with you our results and achievements for 2021. TransAlta had a record year, and I'm extremely proud of the performance of our company and our employees and the outstanding progress we have made in advancing our priorities.

In 2021 we delivered $1.26 billion of adjusted EBITDA, a 36 percent increase over 2020 results. We also delivered free cash flow of $562 million, or $2.07 per share, a 59 percent increase over 2020 on a per-share basis, exceeding the top end of our restated guidance range.

And in September, given our view of 2021 performance and our expectations for 2022, we increased our common share dividend by 11 percent to an annualized $0.20 per share. Our performance was driven by our ability to optimize our fleet and deliver operational performance which enabled us to capture the higher prices experienced in Alberta, demonstrating the underlying value of our diversified fleet.

In addition to the strong results in our Generation fleet, Energy Marketing also had excellent trading results across our US power and natural gas desks, where we capitalized on our deep knowledge of North American power markets and captured market opportunities.

In 2021, we were able to deliver on all of our key priorities, particularly in the areas of growth and carbon transition. In terms of carbon transition, the three-year transition plan that we started in 2019 to phase out coal-fired generation in Canada has been realized. We completed our final coal-to-gas conversion and are now fully off coal in Canada and running on lower carbon-emitting natural gas. This marks the achievement of an important milestone, nine years ahead of the government target of 2030.

Our coal transition is among the most meaningful carbon emission reduction achievements in Canada. Overall, we've reduced our annual CO_2 emissions by 29 million tonnes since 2005, including 3.9 million tonnes in 2021, a 24 percent reduction year over year.

And we've adopted a more ambitious target for emissions reductions, targeting a 75 percent CO_2 emissions reduction by 2026 from 2015 levels. And we're proud to be the first publicly traded electricity company in Canada committed to setting a science-based emissions reduction target.

Shifting to growth, our development team secured 600 megawatts of renewables growth during the year, representing 30 percent of our 5-year growth target, with growth in each of our three core markets in 2021. We achieved commercial operation and completed a project financing on Windrise, our largest wind facility in Alberta. And we continue to monitor new and emerging technologies for deployment in the back half of the decade and beyond.

We recently made an investment in Ekona to advance the commercialization of their hydrogen technology platform. If successful, this technology would produce cleaner and lower cost hydrogen, and has the ability to be sited wherever natural gas infrastructure exists today.

I remain confident in our ability to deliver on the remainder of our 2-gigawatt, clean electricity growth plan, and we are targeting to reach investment decisions on another 400 megawatts of renewables growth in 2022.

We ended the year with record liquidity, and we are well positioned to fully fund our renewable growth pipeline. Strong performance from our Hydro fleet, coupled with the addition of Windrise and the North Carolina Solar portfolio, led to EBITDA contribution from renewables and storage assets increasing from 35 percent in 2020 to 43 percent in 2021.

As I mentioned, in 2021, we secured 600 megawatts of growth projects across Canada, the US, and Australia, a solid start to our 2-gigawatt target by 2025. This represents a capital investment of approximately $1 billion and delivers 30 percent of our 5-year target on a megawatt basis. Combined, these projects will contribute just under $100 million in EBITDA once fully operational, achieving 40 percent of our five-year EBITDA target.

We closed the North Carolina Solar acquisition in November, which is already in service, and we currently have 178 megawatts of projects actively under construction in Alberta and in Western Australia. And later this year, we will start construction on our White Rock project in Oklahoma. All of our construction projects are expected to be funded with existing liquidity.

In December, we entered into two long-term PPAs with a new investment-grade customer for the full output from the 300-megawatt White Rock Wind Projects in Oklahoma. The delivery of low-cost, reliable, and clean energy from White Rock supports our customer's sustainability goals and will nearly double our Wind fleet in the United States from 375 megawatts to 675 megawatts. Commercial operation is expected to be achieved in the second half of 2023, and these wind facilities will be our sixth and seventh in the US and, combined, will be our largest US wind project.

As I turn now to our US development pipeline, you can see that the White Rock Project has moved from the advanced development category into the under construction category. We still have over 800 megawatts of potential development sites in the US, across a number of projects in several key markets. Our most advanced site is now the 200-megawatt Horizon Hill Project in Oklahoma, and we're pleased with the progress that our team is making as they advance that project towards a final investment decision.

The demand for renewables remains strong in the US, and we see plenty of opportunity for growth in that market. We're looking at a number of opportunities to grow our development pipeline in the US and expect to add some excellent sites to our pipeline over the course of 2022.

We remain disciplined on growth in Canada, including here in Alberta. We've shifted away from merchant baseload gas generation and are now exploring opportunities to maximize the value of our Hydro and Wind fleets, with a new focus on battery storage as well as wind and solar. This includes our WaterCharger Project, where we've recently filed our application with the Alberta Utilities Commission.

The project will build a 180-megawatt battery storage facility near the Ghost Reservoir on the Bow River. The batteries would be charged from our existing hydroelectric facility there and dispatched to the provincial power grid when demand for power is high.

We continue to develop a number of wind development sites in Alberta, as we see continued demand for renewable PPAs in the market from corporate customers. Our team is actively seeking opportunities to contract our sites and advance those projects into the construction phase.

In Australia, we've moved the 40-megawatt Mt. Keith capacity and transmission expansion projects to the advanced development stage. We're seeing growing opportunities in Western Australia in support of our remote mining customers. Our team is developing customized clean power solutions to meet the ESG objectives of our customers in the most cost-effective manner. We're advancing several opportunities there, and we expect to reach final investment decision on additional projects with BHP and others in the coming months.

I'll now turn it over to Todd to take us through our financial results for the year.

Todd Stack — EVP Finance and Chief Financial Officer, TransAlta Corporation

Thank you, John, and good morning, everyone. As John discussed, we had a record year in 2021, and our diversified fleet delivered excellent results, with $1.26 billion of adjusted EBITDA and record free cash flow of $562 million. This stellar performance was led by our Alberta fleet, which I'll discuss first.

The hydro, gas, energy transition, and wind facilities are dispatched as a portfolio in order to benefit from baseload and peaking energy sales. And for the full year, the fleet generated just under 13,000 gigawatt hours of electricity.

The strong pricing throughout the quarter resulted in the average pool price for Q4 settling at $107 per megawatt hour, and at $102 per megawatt hour for the full year. This is significantly stronger than the average price in 2020 of $47.

The ability of hydro to capture peak pricing was demonstrated throughout the year, with average realized prices of $122 per megawatt hour, which represents a 19 percent premium over the average spot price.

Ancillary services from our hydro fleet continued to be an important contributor to the Hydro business, and volumes were broadly in line with expectations. Overall, Hydro gross revenues benefitted from strong realized pricing, from both energy and ancillary services, and exceeded our expectations for the year with the Alberta hydro fleet delivering over $300 million of EBITDA.

The gas and coal units also realized strong pricing of $102 per megawatt hour, which is a combination of both the hedged positions, as well as from peaking merchant sales. Our wind fleet, which is not dispatchable, realized an average price of $63 per megawatt hour, which was one of our strongest years ever.

And looking forward to 2022, we have approximately 75 percent of the expected Alberta gas generation hedged at $75 per megawatt hour, and roughly 55 percent of our natural gas fuel requirements is hedged at $2.75 per GJ. In addition to our contracted production, we continue to retain a significant open position in order to realize higher pricing during times of peak market demand.

During the fourth quarter of 2021, we changed our segmented reporting disclosures to align with our clean electricity growth plan, and the recent completion of our off-coal transition. Through this re-segmentation, we now have a single gas segment, which includes the previous North American and Australian gas segments, and it also includes the Alberta thermal units that were converted to natural gas.

We combined the Alberta Thermal and Centralia segments into the new Energy Transition segment, which is reflective of the transitory nature of these assets. This segment includes the Centralia facility, the remaining legacy Alberta Thermal assets that did not undergo boiler conversions, as well as all of the mine reclamation operations. No changes were made to the Hydro, Wind and Solar, or the Energy Marketing segments. The 2021 results and corresponding history have been restated to reflect our new segmentation.

As I mentioned, our performance was led by the Alberta hydro fleet, which delivered a threefold increase in adjusted EBITDA, from $105 million in 2020 to $322 million in 2021, a fantastic result. Similarly, adjusted EBITDA from the new Gas segment also increased 35 percent year over year, from $367 million in 2020 to $494 million this year.

Adjusted EBITDA from the Energy Transition segment decreased 24 percent year over year, due to the retirement of the Centralia Unit 1 at the end of 2020. And we expect contribution from this segment to decline further in 2022 with the retirement of Keephills Unit 1 at the end of 2021 and Sundance Unit 4 in April of this year.

Our Energy Marketing team also delivered another consecutive year of outstanding results. We delivered $137 million in adjusted EBITDA, a 21 percent increase to 2020, which was also a great year for the team.

Overall, TransAlta delivered an exceptional year, and we are very pleased with both the results across our diversified fleet and the realization of the potential of our Alberta generating portfolio. I want to thank all of our employees for their dedication and contribution in achieving these fantastic results.

I'm going to turn now to highlight our longer-term trends for free cash flow and EBITDA performance and the continuing financial strength of the Company.

For 2021, EBITDA exceeded our 2020 annual results by 36 percent and delivered towards the top end of our 2021 guidance range.

In January, we announced our 2022 EBITDA guidance range of $1.065 billion to $1.185 billion. Our 2022 guidance is based on our estimate for Alberta pricing of between $80 to $90 per megawatt hour.

Free cash flow for 2021 also exceeded our 2020 annual results by 57 percent and exceeded our guidance range. Our free cash flow for 2022 is estimated in the range of $455 million to $555 million, which equates to free cash flow per share of $1.86 at the midpoint.

Our balance sheet and liquidity remained very strong. We closed the year with $2.2 billion of liquidity, including $947 million of total cash. This positions us extremely well to fund our future growth pipeline, including our 480 megawatts of projects under, or soon to be under, construction.

Before I turn things back to John, I'd like to turn to TransAlta Renewables and our year-end results there. As you are aware, our operating Wind and Solar assets, as well as the majority of our contracted Gas assets, are held within TransAlta Renewables and are fully consolidated in TransAlta's results. Overall, TransAlta Renewables had a solid year for growth by adding four new assets to the fleet. The Company's adjusted EBITDA increased with the additions of the Skookumchuck wind and Ada cogen facilities in Q1, as well as the commissioning of Windrise and the acquisition of the North Carolina Solar facilities, both in the fourth quarter.

Our year-end also marked the conclusion of our contract dispute with FMG at South Hedland. FMG has returned as a customer at South Hedland and is now taking power under a renegotiated PPA.

For 2022, we expect adjusted EBITDA at RNW to be between $485 million and $525 million, representing approximately a 9 percent growth year over year. Higher EBITDA from our new assets will be partially offset by the loss in revenues at Kent Hills for the balance of the year.

We expect CAFD, at the midpoint of our guidance range, will decline relative to 2021 due to the impact of Kent Hills, scheduled principal repayments on the South Hedland debt, and the provision settlement at Sarnia relating to our outage in 2021.

Given these cash flow impacts in 2022, we expect the Company's dividend payout ratio to be between 88 percent and 102 percent, exceeding our stated target range of 80 percent to 85 percent.

The Kent Hills rehabilitation plan is on track and proceeding as expected. We are targeting to begin construction in the second quarter of the year, and discussions are ongoing with both New

Brunswick Power and our lenders. We will look to share additional information on our progress as it becomes available.

We have strong liquidity at RNW for the upcoming funding needs. In addition to our $700 million committed credit facility, we had $244 million of cash at the end of 2021. And based on RNWs current financial position, we have sufficient capacity to continue to fund the annualized common dividend at $0.94 per share.

With that, I'll turn the call back over to John.

John Kousinioris

Thanks, Todd. In 2022, we will continue to focus on progressing our key goals, which include: reaching a final investment decision on 400 megawatts of additional clean energy projects across Canada, the United States, and Australia; achieving COD on the Garden Plain Wind and Northern Goldfields Solar projects; progressing construction on our White Rock Wind projects; expanding our development pipeline with a focus on renewables and storage; recontracting with the remaining industrial customers and the ISO at Sarnia; progressing the rehabilitation of Kent Hills Wind; delivering EBITDA and free cash flow within our guidance ranges; and advancing our ESG objectives, which includes reclamation work at Highvale and Centralia, providing Indigenous cultural awareness training to all of our employees, and achieving at least 40 percent female employees by 2030.

I'd like to close by highlighting, as I always do, what I think makes TransAlta a highly attractive investment and a great value opportunity.

First, our cash flows are resilient and are supported by a high-quality and highly diversified portfolio, as underscored by our record year in 2021. Our business is driven by our contracted Wind portfolio, our unique, reliable, and perpetual Hydro portfolio, and our efficient Gas portfolio, all of which are complemented by our world-class asset optimization and energy marketing capabilities.

Second, we're a clean electricity leader with a focus on tangible greenhouse gas emission reductions. Our decarbonization journey has resulted in greenhouse gas reductions that represent 9 percent to 10 percent of Canada's 2030 target. In 2021, we reduced our annual CO_2 emissions by a further 3.9 million tonnes, adopted a more ambitious emissions target of 75 percent by 2026 from 2015 levels, and are committed to setting a science-based emissions reduction target. In addition, our focus on removing systemic barriers through our commitment to equity, diversity, and inclusion, and good governance places us well ahead as a leader in ESG.

Third, we have an extensive and diversified set of growth opportunities, which includes a pipeline of advanced-stage projects and a talented development team focused on realizing its value. Our execution is on track, and we delivered on that growth pipeline in 2021, already securing 600 megawatts of renewables and storage growth.

Fourth, our company has a strong financial foundation. Our balance sheet is in great shape, and we have ample liquidity to pursue growth.

Finally, our people. Our people are our greatest asset. And I want to thank all our employees and contractors for the work that they have done to deliver our exceptional results in 2021. We're committed to a company culture where everyone belongs and can bring their best and authentic selves to deliver great results for our company.

TransAlta's at an exciting time in its evolution, and we're well positioned for the future as a leader in low-cost, reliable, and clean electricity generation, focused on serving and meeting the needs of our customers.

Thank you. I'll turn the call back over to Chiara.

Chiara Valentini

Thank you, John. Miranda, would you please open the call for questions from the analysts and media?

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin our question-and-answer session. Should you have a question, please press *, followed by the number 1 on your touch-tone phone. You will hear a three-toned prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by the number 2. If you're using a speakerphone, please lift the handset before pressing any keys. One moment here for your first question.

Your first question would come from Dariusz Lozny from Bank of America. Please go ahead.

Dariusz Lozny — Bank of America

Hi. Good morning and thank you for taking my question. The first one is—

John Kousinioris

Good morning, Dariusz.

Dariusz Lozny

Good morning. I just wanted to maybe discuss the US development pipeline a little bit. I noticed, comparing against your investor day materials, there's been a little bit of movement there. Looks like a couple of solar projects are no longer on that slide. Perhaps a couple of them moved back to '26 from a slightly earlier time frame. Could you maybe talk about the drivers of those changes? Is it supply chain-related, potentially? Are there inflationary pressures driving any of that? Just maybe talk about some of the puts and takes as that pipeline's developed, if you could?

John Kousinioris

Yeah. Dariusz, it's really driven by sort of the continuous evaluation that our development team does in terms of seeing which projects are the best ones that we have to actually advance. And it's a continual sort of iterative process that our development team has in assessing which ones we're going to prioritize, and which ones are further away or less likely to proceed. It isn't really, at this point, based on any of the challenges that we see from a supply chain or an inflationary perspective. It's really driven more by the potential of projects and where we think that we'll be able to slot them in from a development perspective.

Dariusz Lozny

Got it. Okay. That's very helpful. And maybe just staying on that topic, bearing in mind, it seems like you guys are advancing some of the US, Oklahoma projects pretty well. I just want to confirm, does the goal still remain to add 2 gigawatts by 2025? Or is there perhaps some flexibility in by when those two gigawatts might be online?

John Kousinioris

Yeah. It's a great question. Our target remains as it was from our investor day to get to 2 gigawatts from 2025. As we progress, and we develop our development pipeline, and we continue to sort of execute as well as we can from growth, we'll reevaluate the target. But our target right now remains as it was in our investor day in September of last year.

Dariusz Lozny

Okay. Thank you very much. I'll pass it along here.

John Kousinioris

Thank you.

Operator

Your next question would come from Maurice Choy from RBC Capital Markets. Please go ahead.

Maurice Choy — RBC Capital Markets

Thanks and good morning. My first question's just a follow-up on the earlier question about your clean energy growth plan. You mentioned that small changes to the pipeline were not driven by supply chain or inflation pressures. So maybe just take a picture. Could you just point to maybe the top two things that you watch out for, and the ones that we can follow as well, that would alter—be that delay or even hasten the growth of this plan to deliver at 2 gigawatts?

John Kousinioris

Yeah. So, Maurice, right now, I think we—look, we're in the middle of basically a $1 billion build-out from growth largely in 2023. Our development teams and our growth teams are busy. We tend to be focused on matching our development projects with PPAs. We don't build projects on spec. They're always driven from having a PPA that really underpins the economics of the project as we go forward. We continue to see robust demand, both in Canada and the United States, and Australia, for those projects.

And really, we don't see—I mean, I think we have a natural progression in terms of meeting the target that we've set. If we're more successful in terms of increasing our pipeline than our current approach, you might see us accelerate some of the development that we do. In terms of something that could impact it is, if there are inflationary pressures, or something happens to the demand that we're seeing in the market that kind of reduces that sort of drive that we're seeing from the corporate sector in the sense of a shift to renewables. That might affect, kind of, the progression but, right now, we're not seeing that. We're seeing sort of steady demand going forward. We're seeing PPA prices that have adjusted and actually gone up to reflect some of the inflationary pressures that we're seeing.

So at least from a TransAlta perspective, it's about finding customers to match with our projects as we go through and develop them in a way that meets our threshold hurdle rates.

Maurice Choy

Got it. That makes sense. And maybe a second question that's more of a bigger picture question. On Slide 16, for your 2022 priorities, you mention that you're looking to secure long-term contracts for Alberta merchant fleet. Maybe firstly, what projects are you referring to on these? And the bigger picture question is, how do you view your profile in terms of contract to cash flows versus merchant today? And where would you like to be?

John Kousinioris

Yeah. No. That's a great question. So one of the things that we do—so that reference in the slide to securing long-term contracts for Alberta merchant fleet is directed to our merchant fleet. What a lot of people sometimes lose sight of the fact is when we talk about our hedging position, roughly—Todd—I would guess 20 to 25 of the hedge position is based on contracts that we have with our C&I business, our commercial and industrial business. And that's often multiyear contracts that provide kind of a contractiveness to our merchant fleet and kind of underpin our hedging efforts that are there.

When we think of the kinds of other contracts that we're looking for, I think the recent transaction that was announced with Lafarge, for example, in Exshaw, where we're powering with renewable energy, their operations there as an example. I think we're moving, I think quite well. for instance, to contract the remaining merchant position at Garden Plain. And we continue to develop our C&I business as a critical component going forward.

So we set targets for the team. They had a really great year last year, increasing that position. And our view is to ensure that we have a good, contracted position, balanced with ensuring that we have enough length in the market to take advantage of higher pricing when it occurs. So that's really what we're referring to there.

Todd, I don't know if you want to add any colour to that?

Todd Stack

I was just going to remind Maurice that as part of the Sun 5 project, we did take on a long-term contract there with a reputable counterparty. Now that contract doesn't start until 2023, but those are fantastic contracts that will, again, boost our overall contractedness across the Company and especially here in Alberta.

Maurice Choy

Perfect. Thank you very much, both.

Operator

Your next question will come from Rob Hope from Scotiabank. Please go ahead.

Rob Hope — Scotiabank

Good morning, everyone. Bit of a larger kind of question, conceptual in nature. Now how are you viewing the relationship between RNW and TransAlta these days? We've seeing the valuation premium of RNW compress, and you're looking to keep White Rock as a TA project there as well. So how are you viewing RNW as a funding vehicle? And is, kind of, the strategic imperative still there to keep it a stand-alone vehicle?

John Kousinioris

Yeah. Good morning, Robert. Look, TransAlta Renewables, for us, remains the vehicle where we have a lot of our contracted natural gas and renewables assets. Today, we continue to view it as a vehicle that could help fund our growth. We're mindful of continuing to consider drop-downs to it. I mean Garden Plain is a good example of the kind of project that we would consider dropping down to it.

The strategies of the two companies are converging, for sure. That is something that we're very mindful of, and we continue to evaluate and reevaluate, kind of, the positioning of the two. But right now, it's a core pillar for TransAlta, and it remains as is in terms of our current strategy.

Rob Hope

All right. Appreciate the colour. Maybe something a little bit more granular there as well, the FMG settlement. Can you maybe just talk to what the impact would be on a go-forward EBITDA basis? Will this replace the EBITDA that FMG was originally going to put into South Hedland? Or will it be something less than that?

John Kousinioris

Yeah. Robert, the settlement is confidential, actually, so we can't disclose any of the terms that we have with FMG going forward. So I wish I could give you more information.

I can say that we're happy to have the dispute over with FMG and bring them back into the fold as a good customer for the facility there. And in fact, it was one of the reasons we had a bit higher sustaining capital spend. We ended up buying a spare engine for South Hedland to make sure that it would meet the needs of FMG as we go forward. But in terms of the specific deals—the specific terms, rather, of the settlement, I can't actually give them to you.

Rob Hope

Okay. Thank you.

Operator

Next question will be coming from John Mould at TD Securities. Please go ahead.

John Mould — TD Securities

Hi. Good morning, everyone. Maybe I'd just like to start with your business in the Pacific Northwest and your longer term outlook there. Beyond the retirement of the second unit at Centralia at the end of 2025, what are you doing to look to maintain a position in that market beyond that closure? Recognizing there are gas supply constraints in the area, is there a gas conversion opportunity? Are there other renewable opportunities in that area that maybe you're looking at? What's on your potential list of things to do there?

John Kousinioris

Good morning, John. So look, doing a coal-to-gas conversion of Unit 2 is challenging, I think for a number of reasons. I think you alluded to them. I think gas supply remains a challenge in the region and, candidly, even permitting is probably a challenge.

We continue to evaluate what we could potentially do with the site and, really, are thinking of it in a couple of ways. One, there is opportunity to add some renewables. For example, we've looked at solar at that part of the world—sorry, on the physical location of the site in the past and continue to work to see what we could do there.

We're looking to see whether there's alternative technologies that we could bring to the generating facilities there that wouldn't be dependent on gas in terms of going forward, and in the early stages of working with some companies that could potentially provide sort of a new technology approach that could see some of the residual infrastructure that we have there be utilized in the future.

And we continue to focus on potentially increasing our pipeline in terms of providing other renewables, particularly wind, in the region to be able to meet some of the growing renewables needs of customers in the region.

I'd also be remiss if I didn't mention that we have looked at and continue to evaluate the importance of and the potential of maybe storage at that facility, given some of the baseload generation that has traditionally been there with coal is fading away pretty rapidly. And as that market transitions, having some of that storage to be able to help out is another opportunity.

John Mould

Okay. Great. Thanks for that. And then maybe just moving on to the WaterCharger Project, I'm just wondering if you can talk through, a little bit, the interplay there with the Brookfield hydro investment? Would that initiative get held as under the umbrella of the TA Alberta hydro unit, in which Brookfield will be able to secure an interest? And how do the capital costs work there? And then the EBITDA formula that determines Brookfield's future stake in those assets, how does that all get factored into the project?

John Kousinioris

Yeah. It's something—look, as we develop the project, we'll clearly engage in discussions with Brookfield to kind of make sure that we're clear about the impact on it. My sense of it right now would be that those revenues—and this is at a first blush, John—would be part of the cash flows that would go into the hydro purchase at this point in time. And the capital would be for TransAlta's account as we develop it and would just then be factored into the purchase equation of the interest when they back into it, at this point in time. So hopefully, that gives you a bit of a sense.

John Mould

Yep. That makes sense. Great. Okay. I will get back in the queue. Thank you.

John Kousinioris

Thanks, John.

Operator

Your next question would come from Andrew Kuske from Credit Suisse. Please go ahead.

Andrew Kuske — Credit Suisse

Thank you. Good morning. I guess, as you start to grow the portfolio of assets in a few different geographies, how do you think about hurdle rates across the geographies? And I ask the question in part because of your portfolio positioning in Alberta is somewhat unique, and you have a lot of optionality that comes out of that portfolio. And so how do you think about investing capital within the core Alberta market versus what you've done in the US and even Australia?

Todd Stack

Yeah. Andrew, I would say, look, our hurdle rates are evaluated based on the risk of each project. And clearly, when we think about—when I think about the projects in the US versus projects here in Alberta, we're effectively developing similar risk profile assets: renewables profile, long-term contracts with good counterparties. And so I don't particularly see a big difference between the two hurdle rates in the two—in the geographies. And similarly, for Australia, we've seen very similar rates of return on projects that we execute down there.

John Kousinioris

Yeah. We haven't, Andrew—I'm not sure. I'm just thinking of sort of our own process that we had over the course of the last year. We didn't see much variation based on the geography of the investment. It was driven more off of, kind of, I would say, Todd, a base level of returns that we expect with adjustments for the quality of the counterparty, risk associated with the development, regulatory certainty, tenor, those kinds of things, more than issues relating to geography, if you see what I mean.

Andrew Kuske

Okay. That's helpful. And then maybe for my second question, get maybe a bit more geeky into some of the technical stuff. And if we think about just battery usage to supplement certain assets, what are you seeing, or what are you getting from OEMs as far as battery performance in colder weather, namely Alberta, versus hotter weather climates like what you experience in Australia?

John Kousinioris

Yeah. The only thing I can say—I mean, that's a question that I think we could probably get back to you on with some of our folks from the development side. I think all I can say is when we look at our WindCharger Project, sort of in southern Alberta, we haven't seen any impacts from a weather perspective. The units are sort of enclosed in appropriate sort of structures, the temperature seems to be within an appropriate operational zone, so we haven't seen any impacts.

And I know when we were developing our Northern Goldfields project, which has a storage component to it, the issues associated with kind of the performance of the units in—would be hot weather, for sure—seem to be pretty comparable, just going from memory from what we're experiencing in southern Alberta, Andrew. We can get back to you with specifics, though.

Andrew Kuske

Okay. That's great. Thank you.

Operator

Your next question will come from Naji Baydoun from iA Capital Markets. Please go ahead.

Naji Baydoun — iA Capital Markets

Hi. Good morning. Your target for 400 megawatts this year of new projects, you have a lot of projects, or some of the most advanced ones in Alberta. I'm just wondering if you could talk about how those would fit into your existing portfolio in the province? If there is—if really, the focus just is, is on contracting all of them? Or if there's a bit of leeway to have some merchant exposure?

John Kousinioris

Yeah. Good morning, Naji. When I think of Alberta, and I think of kind of the projects that we're developing, there's really four that are kind of significant ones from my perspective. The biggest one is Riplinger, which is a 300-megawatt wind farm in southern Alberta. That would be something that we would be looking to contract. Tempest, which is, just going from memory, 100-megawatts wind farm, is something that we're also focused on developing more rapidly and are actively working with that wind farm. That too would be contracted.

When I think of kind of something that might be a little bit more merchant, I think of WaterCharger, which is the 180-megawatt battery project we were talking about a little bit earlier. That would typically be—at least our own thinking around that is it would be much more of a merchant project. It would be—we could potentially contract it, but I think it's more merchant. It would be operated in tandem with our hydro facilities. And we also see it as an ancillary service provider in the market. And then SunHills Solar, which is a little bit of a later-stage development up there, we would also be looking to have that contracted.

So right now, when I look at kind of the leaders, at least from my own perspective, in terms of what we're pursuing in Alberta of significance, it's sort of three-quarters would be contracted, with the merchant being more oriented towards being tied with hydro, and being something that we can optimize through the optimization team that we have with ancillary services and the like.

Naji Baydoun

Okay. Got it. And a question on, I guess, what kind of cost pressures you're seeing on some projects. So your overall goal is deploy $3 billion to develop 2 gigs. You've already got 30 percent of that at a cost of roughly $1 billion. So maybe you can just remind us, even if you go a bit over budget here, what are some of the levers that you have to maintain your returns, both at the project and the portfolio level?

John Kousinioris

Yeah. Great question. So we have seen some inflationary pressure. But we don't—we always do our projects tied to—and I'll set WaterCharger aside—tied to having a power purchase arrangement which is tied to the project. And what we tend to do is one, make sure our economics makes sense because it's tied to sort of the revenue stream that we would be getting from the contract at that time. And we have seen that PPA prices, particularly in the US, have adjusted to sort of reflect some of the increased costs that we see from a construction perspective. So we're holding the returns, if you see what I'm saying, number one.

Two, we are very much focused on, at the time that we sign a PPA, we contemporaneously really fix the costs of as much of the project as we can. And when we mean as much as we can, we mean often 90 percent of the projects, both in terms of securing the turbines, for example, at a fixed price, entering into EPC contracts with a fixed-price arrangement. So we're locking in as much as we can.

The other stuff that we're doing is the supply chain, to your point, is becoming more of an issue at least right now. So we're looking at being more specific about what jurisdictions the equipment is coming from. Whether it's coming from Asia, or whether we're sourcing products from North America or from Europe, is something that we've actually specified in connection with our White Rock Project.

And finally, we're considering early delivery of some components to mitigate against inflationary pressures and make sure that we are able to maintain the timing that we need to get things done.

So hopefully, that gives you a bit of a picture of the levers that we have, and that we've been pulling as we develop our projects. But so far, I think the top-line takeaway is we're able to maintain our returns.

Naji Baydoun

Okay. That's good colour. Thank you.

Operator

As a reminder, should you have a question, please press *, followed by the number 1.

Your next question will be coming from Mark Jarvi from CIBC. Please go ahead.

Mark Jarvi — CIBC

Thanks. Good morning, everyone.

John Kousinioris

Good morning.

Mark Jarvi

Talked about one of your targets for this year is the Sarnia contract. Do you have a sense of when—at what point during the year you'll have some clarity on that? And are you at a point now where you can kind of give us some indication or bookends in terms of potential EBITDA haircut or where they'll be to the EBITDA, sort of pro forma, post recontracting?

John Kousinioris

Mark, thanks for that. Good morning. I'll maybe start and then turn it over to Kerry, who can talk about the ISO process that we're going through.

So we have contracted one of the four. We actually have a Bitcoin mining company, which has come on to the park that we have there, which is also contributing to some of the cash flows that we're seeing, so we're happy to see that.

In terms of the other three major industrial customers that were there, we are expecting to have those—and they're in various stages of negotiation but fairly advanced, I would say—and we would expect to have all of them contracted, certainly in the first half of this year, by and large, which then leaves—and we would expect kind of the EBITDA expectations from those to be kind of the same, or maybe even slightly better than what we currently have from that segment there. It's an important facility for a lot of the customers that we have in that Sarnia region.

And then on the ISO side maybe, Kerry, you can give Mark a bit of colour in terms of the process there?

Kerry O'Reilly Wilks — EVP Legal, Commercial and External Affairs, TransAlta Corporation

Sure. Good morning, Mark. So the Ontario government is actually fairly advanced in how they're structuring their RFP process. We were required to register at the end of February, which we did. And they're still finalizing what the rules and the contract will look like, but bids need to be in by the end of April. And the current estimate is that contract will be awarded by the end of August, so we should have much more certainty on what that will look like for us in the coming weeks, really.

John Kousinioris

And I think, Kerry, those would be for 2026—

Kerry O'Reilly Wilks

Right. Five year.

John Kousinioris

—and the—and it's a five-year period, post 2026. In terms of what that means from a cash flow perspective, I mean I think it will probably see a bit of a reduction in the EBITDA that would come from the ISO contract. And we'll wait and see sort of where it'll land. Todd, I don't know—

Todd Stack

Primarily from the ISO contract. And, Kerry, they've set caps on what they expect for bids through that new capacity auction program that they're going through.

Kerry O'Reilly Wilks

Yep.

Mark Jarvi

And can you remind us again, sort of, split between the industrial offtakes and the ISO right now?

Todd Stack

It's probably about 30 percent—30 percent to 40 percent from the industrial customers, and then probably 60 percent from the ISO contract.

John Kousinioris

Yeah. I think of it is as 60/40, Mark. Yeah.

Mark Jarvi

That's very helpful. Thanks. And then, Todd, any updated thoughts in terms of the bond maturing later this year, in terms of whether or not you just repay it—and given the strong cash position? Or would you look to refinance? Or what sort of strategy there?

Todd Stack

Yeah. Look, I think right now, look, we have, I think, over $1 billion of capital committed for construction on new facilities. So our expectation is to refinance that maturity. We likely won't wait until

November. And I know our treasury team has actually hedged a lot of the underlying over the course of the last year. So we're in good shape on the underlying reissue. But I think we would—we will be refinancing it—

John Kousinioris

We'll be refinancing it. Yeah.

Mark Jarvi

Okay. And then last one. John, you talked about being able to preserve margins, even though some cost pressures. And just looking at White Rock and like the CapEx numbers are up a bit, but so is EBITDA. Can you just remind us again, in terms of the higher EBITDA projections versus a couple months ago, is that fully recovered through the PPA? Or is there some sort of a merchant component of that? And just your certainty on, sort of, the ability to offset CapEx with higher EBITDA at White Rock?

John Kousinioris

No. I mean I think that is based on the PPA contract that we see there, a bit of variation depending on the PTC treatment I think that we get, depending on where that lands in the US. But there isn't a merchant position, for example, Mark, that would supplement kind of where the EBITDA cash flows are.

Mark Jarvi

Okay. Thanks so much.

John Kousinioris

Thank you.

Operator

There are no further questions at this time. Please go ahead.

Chiara Valentini

Great. Thank you, everyone. That concludes our call for today. If you have any further questions, please don't hesitate to reach out to the TransAlta Investor Relations team. Thank you and have a great day.

Operator

This concludes your call for today. We would like to thank everyone for joining and you may now disconnect your lines.