FINAL TRANSCRIPT

TransAlta Corporation

First Quarter 2022 Results Conference Call

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PRESENTATION

Operator

At this time, I would like to welcome everyone to TransAlta Corporation's First Quarter 2022 Results Conference Call.

Note that all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. Thank you.

Ms. Valentini, you may begin your conference.

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

Good morning, everyone, and welcome to TransAlta's First Quarter 2022 Conference Call.

With me today are John Kousinioris, and 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 also posted on our website. A replay of the call will be available later today, and the transcript will be posted to our site shortly thereafter.

All of the information provided during this conference call is subject to the forward-looking statement qualifications set out here on our 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 reconciled in the MD&A for your reference.

On today's call, John and Todd will provide an overview of the quarter's results, and after these remarks, we will open the call for questions.

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 first quarter results call for 2022.

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 7 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.

TransAlta had a solid first quarter, and I'm proud of the progress we have made in advancing our priorities, and in the performance of our Company and our employees. We delivered $266 million of Adjusted EBITDA and free cash flow of $115 million, or $0.42 per share, both broadly in line with our expectations for the quarter.

We focused on optimizing and economically dispatching our fleet and delivered operational performance which enabled us to run during periods of peak pricing in Alberta. The prices realized by both our Alberta hydro and Alberta gas fleets were in excess of average spot prices in the quarter and are reflective of the value and peaking nature of our diversified fleet.

During the quarter, we also delivered on a number of key priorities. On the growth side, our Development Team secured 200 megawatts of renewables growth with the announcement of the Horizon Hill wind project with Meta, formerly known as Facebook, as well as the Mount Keith Transmission Expansion project in Western Australia with BHP. We executed a PPA for the remaining 30 megawatts of capacity at our 130-megawatt Garden Plain wind facility with an investment-grade counterparty, Garden Plain is now 100 percent contracted with two great counterparties, and we are now able to share with you that Amazon is our corporate customer at the White Rock wind projects.

I remain confident in our ability to deliver on the remainder of our 2-gigawatt Clean Electricity Growth Plan. We're targeting to reach investment decisions on another 200 megawatts of renewables growth later this year, and are on track to deliver on our annual target of 400 megawatts for 2022.

Switching to our re-contracting activities at Sarnia, I can now confirm that we have entered into additional contract extensions with all three remaining industrial customers at the facility. This is a significant achievement, with PPA renewals now in place with all of our industrial customers at the site, setting the facility up well for contracted life extension into the 2030s.

On the coal transition side, we have fully retired both Keephills Unit 1 and Sundance Unit 4, and now no longer have operating coal units in Canada. Our coal transition is among the most meaningful carbon emission reduction achievements in the country, representing 9 to 10 percent of Canada's 2030 emissions reductions target. Overall, we have reduced our annual CO_2 emissions by 29 million tonnes, as compared to 2005, including 3.9 million tonnes of annual reductions in 2021, a 24 percent reduction year-over-year.

The recently announced policy directions from the federal government support our decisions and validate our strategic shift. Government policy announcements, particularly the federal discussion paper on the Clean Electricity Standard and the 2030 Emissions Reductions Plan, confirm that new natural gas generation faces growing policy and economic risks. Our principal focus is now on developing renewable projects that meet the growing demand for electricity in a manner that is aligned with global carbon goals, as we outlined at our Investor Day last year.

Identifying alternative pathways to deliver reliability, while pursuing a path to net-zero, is critical for our Company, and we have established an internal Energy Innovation Team with a mandate to do just that. In addition to the recent investment we made in Ekona to help advance their hydrogen technology platform, we have made a $25 million commitment to Energy Impact Partners Frontier Fund. This fund is focused on making investments in companies with transformative technologies critical to deep decarbonization, including long-term storage, novel generation and industrial decarbonization. All of this is directed at taking a targeted approach to diversification and defining the next generation of power solutions for our Company.

We continue to make considerable progress on advancing our EBITDA contribution from renewables assets. With the addition of the Windrise and North Carolina solar facilities last year, our

EBITDA contribution from renewables and storage assets reached 53 percent in the quarter, another step toward our target contribution level of 70 percent by the end of 2025.

As a result of the progress we've made in advancing our Clean Electricity Growth Plan, our ESG rating with Morgan Stanley Capital International was upgraded from BBB to A.

Finally, in March, we were active with our normal course issuer bid and returned $18 million to our shareholders through the buyback of 1.4 million common shares.

In April, we entered into a long-term PPA with Meta for the full output from the 200-megawatt Horizon Hill wind project in Oklahoma. The delivery of low-cost, reliable and clean electricity from Horizon Hill supports Meta's sustainability goals and will bring our wind fleet in the United States to almost 875 megawatts. Commercial operation of the wind farm is expected to be achieved in the second half of 2023, and annual EBITDA from the project is expected to be between US$27 million and US$30 million. Similar to our White Rock project, over 90 percent of the project capital costs have been fixed under a turbine supply agreement with Vestas and an EPC agreement for the construction of the project with infrastructure and energy alternatives. Horizon Hill will be our eighth wind facility in the U.S.

We're also excited to announce the expansion of the Mount Keith transmission system in Western Australia to support the Northern Goldfields-based operations of BHP. The project will facilitate the connection of additional generating capacity to our network to support BHP's operations and increase their competitiveness as a supplier of low-carbon nickel. The project is being developed under the existing PPA with BHP, which has a 15-year term. Construction capital is estimated to be between

AU$50 million to AU$53 million. The project is expected to be completed in the second half of 2023, and generate annual EBITDA in the range of AU$6 million to AU$7 million.

We see considerable opportunities for TransAlta as the race to decarbonize unfolds over the next decade. We plan to deliver 2 gigawatts of new renewables capacity by 2025, by deploying $3 billion of capital, with the target of achieving cumulative annual EBITDA from the projects of $250 million by 2025. Were just over a year into the execution of the plan and we're proud of the progress that we have made. We've secured 800 megawatts of growth projects across Canada, the U.S. and Australia, representing 40 percent of our 2-gigawatt target by 2025. Combined, these projects will contribute approximately $137 million in EBITDA once fully operational, providing 55 percent of our five-year incremental annual EBITDA target of $250 million.

As I turn now to our U.S. development pipeline, we've highlighted that the Horizon Hill project has moved from the advanced development category into the under construction category. We still have over 750 megawatts of potential development sites in the U.S. across a number of projects in several key markets. The demand for renewables remains strong in the U.S. and we see plenty of opportunity for growth in that market. We're actively looking at a number of opportunities to grow our development pipeline there. We recently added a new wind development site to the pipeline and expect to continue to add projects to our pipeline over the course of 2022.

We remain disciplined on growth in Canada, primarily here in Alberta. Our Tempest wind project has moved up to an advanced stage of development, and we continue to see demand for renewable

PPAs in the market from corporate customers. Our team is actively seeking opportunities to contract our sites and advance our projects into the construction phase.

In Australia, we've moved the Mount Keith Transmission Expansion Project to the under construction phase. We're definitely seeing growing opportunities in Western Australia in support of our remote mining customers, and we're advancing several opportunities there and expect to reach final investment decision on additional projects with BHP, and others, in coming months.

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

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

Thank you, John, and good morning, everyone.

In Alberta, our hydro, gas, energy transition and wind facilities are dispatched as a portfolio in order to benefit from baseload and peaking energy sales, and in the first quarter the fleet generated just over 25 gigawatt hours of electricity. We've positioned our fleet to firm renewables and provide capacity and energy when needed by the grid.

Strong pricing throughout the quarter resulted in the average pool price for Q1 settling at $90 per megawatt hour. This was slightly softer than the average price in Q1 of 2021 of $95, and capacity factors were lower than our expectations, as price volatility was more muted this year than in 2021. The lower price and lower volatility was mainly due to warm weather and fewer planned and unplanned outages across the province, compared to last year.

In the quarter, the Company was well hedged on both power and natural gas. However, given the significant increase in the spot price of natural gas, combined with the current carbon price levels, coal-fired generation had the marginal cost advantage in the quarter.

Given these market conditions, we optimized the fleet through daily assessments and made choices on whether to dispatch down our units and supply our customers through the market. This also allows us the opportunity to resell any unused gas that was hedged, and also avoids higher emissions and corresponding carbon costs. As carbon costs continue to rise, and other coal-fired units in the market become less competitive and retire, or are converted, we expect to see stronger correlations between natural gas and power prices in the near future, as offers from generators will fully reflect the price of gas.

During the quarter, the gas and energy transition units realized a premium of 15 percent over spot price, with the realized merchant price of $103 per megawatt hour. With our Alberta fleet now fully converted to natural gas, our carbon compliance costs have decreased by over 50 percent, from $19 a megawatt hour in Q1 of 2021 to $9 per megawatt hour in the first quarter of 2022. The ability of our hydro fleet to capture peak pricing was demonstrated again in the quarter, with realized merchant prices of $108 per megawatt hour, which represented a 20 percent premium over the average spot price.

Ancillary services revenue in the quarter was lower due to the lower average pool price and lower volatility. A lower contribution from ancillary services resulted in a reduced EBITDA from the hydro segment.

Our merchant wind fleet in Alberta performed extremely well. Not only did we benefit from a strong wind resource, the fleet also benefited from strong on-and-off peak pricing and realized an average merchant price of $58 per megawatt hour.

Looking at the balance of 2022, we have approximately 4900 gigawatt hours of our Alberta gas generation hedged at an average price of $73 per megawatt hour and 40 million gigajoules of natural gas hedged at approximately $3.00.

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, and we see forward prices for the balance of the year in the $112 per megawatt range.

Our performance in Q1 was led by the wind and solar fleet, which delivered a 17 percent increase in Adjusted EBITDA, from $76 million in the first quarter of 2021 to $89 million this quarter. The increase was driven by incremental contributions from the Windrise facility, as well as the North Carolina solar facility, and higher wind resource. This increase was partially offset by the extended outage at Kent Hills.

Operations and Adjusted EBITDA from the gas segment, which includes our contracted assets, as well as our Alberta merchant fleet, was largely in line with 2021. Adjusted EBITDA from the energy transition segment decreased 69 percent year-over-year, due to the retirement of Keephills Unit 1 at the end of 2021, and lower production and higher coal costs at Centralia. Our Energy Marketing Team delivered results consistent with our normalized expectations for the segment, with $27 million in Adjusted EBITDA.

Overall, TransAlta's results were in line with our expectations. I want to thank all of our employees for their performance in delivering the quarter.

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.

In the first quarter, we delivered EBITDA of $266 million, broadly in line with our expectations and consistent with our 2022 EBITDA guidance range. Free cash flow of $115 million, or $0.42 per share, was also in line with our expectations and also consistent with our 2022 free cash flow guidance range of $455 million to $555 million.

In the quarter, DBRS reaffirmed our BBB low stable rating, and we still expect to refinance our November 2022 debt maturity before it matures. Our Treasury Team has been proactive and have secured interest rate locks to protect us against rising interest rates.

Our balance sheet and liquidity remain very strong. We closed the quarter with over $2 billion of liquidity, including approximately $1 billion in available cash. This positions us extremely well to fund our future growth pipeline, including our 680 megawatts of projects under, or soon to be under, construction.

Before I turn things back to John, I'll turn to TransAlta Renewables. 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, the quarter's results marked the full addition of 428 megawatts of contracted growth generation in each of our core operating regions in 2021. Despite the ongoing suspension of operations at Kent Hills, RNW's results for the quarter have demonstrated the resilience of the diversified fleet and the value of the 2021 growth investments.

For the first quarter, TransAlta Renewables delivered $139 million of Adjusted EBITDA, an increase of $16 million, compared to the same period in 2021. The increase was the result of incremental production from our growth projects and strong wind resource during the quarter.

With respect to Kent Hills, we're expecting to finalize our rehabilitation plan and conclude our negotiations with New Brunswick Power very soon. We are pleased to say that we have an agreement in principle with NB Power that includes, among other things, a term that now goes to December 31, 2045, under each of the three PPAs. Further, our discussions with the project lenders are in advanced stage and we expect to obtain their final consents during the second quarter, at which time we'll be in a position to commence construction.

The estimated rehabilitation cost has increased in excess of our previous range and is now estimated at $120 million, including contingency and the net impact of replacing the failed turbine. The increase is due to a more robust foundation design, inflationary cost pressures and an acceleration of the schedule. We will provide a further update on expected expenditure, commercial terms and construction timelines as terms are finalized.

We have strong liquidity at RNW for the upcoming funding needs. In addition to our $700 million committed credit facility, we had $278 million of cash at the end of the quarter.

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

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Thanks, Todd.

As I look at our strategic priorities for 2022, our primary goal is to continue delivering clean power solutions to, and be the supplier of choice for, customers that are focused on sustainable growth and decarbonization. In 2022, we're focused on progressing the following key goals:

- reaching final investment decisions on the equivalent of 400 megawatts of additional clean energy projects across Canada, the United States and Australia, and we're on track, having secured 200 megawatts so far this year;
- achieving COD on the Garden Plain wind and Northern Goldfields solar projects;
- progressing construction on our U.S. wind projects at White Rock and Horizon Hill and advancing our Mount Keith Transmission Expansion project in Western Australia;
- expanding our development pipeline with a focus on renewables and storage;
- re-contracting with the ISO at Sarnia in Q3;
- progressing the rehabilitation of Kent Hills wind, which we expect to be able to provide more details on later this quarter;
- achieving EBITDA and free cash flow within our guidance ranges;

- advancing our ESG objectives, which includes reclamation work at Highvale and Centralia, providing indigenous cultural aware training to all of our employees, and achieving at least 40 percent female employees by 2030.

I'd like to close by highlighting 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. Our business is driven by our contracted wind and solar 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 emissions reductions. We have adopted a more ambitious CO_2 emissions reductions target of 75 percent by 2026, from 2015 levels, and are committed to setting a science-based emissions reductions target this year. In addition, our focus on removing systemic barriers through our commitment to equity, diversity and inclusion, and good governance shows our commitment to leadership across all dimensions of ESG performance.

Third, we have an extensive and diversified set of growth opportunities and a talented Development Team focused on realizing its value. Our execution is on track and we delivered on that growth pipeline in 2021, and early in 2022.

Fourth, our Company has a sound financial foundation, our balance sheet is strong and we have ample liquidity to pursue our 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 results this quarter.

TransAlta has had 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 – Managing Director, Strategic Finance and Investor Relations, TransAlta Corporation

Thank you, John.

Sylvie, will you please open the call for questions from the analyst and media community?

Q & A

Operator

Thank you. Your first question will be from Dariusz Lozny at Bank of America. Please go ahead.

Dariusz Lozny – Analyst, Bank of America

Hey, guys, good morning, and thank you for the time. My first one is maybe just kind of on capital allocation. It seems like you guys have quite a bit of cash on hand and liquidity available, relative to the projects in the pipeline, and that's before your fairly robust free cash flow guidance for the year. Maybe in the context of the buyback that you guys did a little bit on in Q1, or other options, how are you guys thinking about deploying the balance sheet a little bit here?

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

Good morning, Dariusz. Look, I would say that we continue to be opportunistic on share buybacks. We were blacked out during our Q4 release and our annual results last year and did purchase once we were out of that buyback period, and really opportunistic—I mean, when we saw the share price, it fell off during Q1 and we saw it as a great opportunity to pick up shares.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, and I would say, Todd, too, we do have—I mean, I think our total spend in terms of projects under construction is sort of in that mid-$1.5 billion range, when you put sort of the capital commitments we're expecting from both companies, both TransAlta and TransAlta Renewables. So, I think we're comfortable with the way we're looking at our capital allocation. It kind of falls within the ranges that we've said we tend to target.

Dariusz Lozny – Analyst, Bank of America

Okay, great, thank you for that, and maybe switching gears—and congrats on locking up the industrial Sarnia customers for a few more years. Can I take away from the update and the MD&A on the ISO's process, that you guys will have visibility into whether or not that contract is extended by the second half of '22? It sounds like that's sort of where their process might give you guys some clarity, but will you be able to update the market at that point?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

That's actually what our expectation is, Dariusz. The ISO there has come out and is basically running an RFP for kind of a medium-term sort of capacity to be awarded for the province. I think it goes from 2026 to 2031, that kind of time period. We have actually applied and are seeking a contract under that capacity procurement that they're doing. We're pretty confident in our ability to being successful in that. Right now, the current time schedule for the ISO to kind of go through all of the proponents for capacity contract would see them coming back to people in Q3. So, I think you've got it exactly right.

Dariusz Lozny – Analyst, Bank of America

Okay, great, thank you. If I can sneak in one more quick one, just on your higher expected forecast for Alberta pricing for the full year. Is that just a factor of Q1 coming in higher than expected, or is there something that you're updating in your forecast for the balance of '22 here?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, I think what we've seen is actually the forward curve, and I think market expectations in terms of where pricing is going to be in the jurisdiction increasing pretty significantly, I would say, over the course of the last month, or so. I think kind of balance-of-year pricing in Alberta is now in that $113 range. I think May, and we're already in May, would be in the upper $90s. I think June is a bit over $100. Then, Q3, a bit over $120, and then Q4, about $114. So, in general, I think what we're seeing is the market kind of just reacting to the increase in gas prices and just making sure—just reflective of the fact that variable costs for a lot of the generators have popped up.

Dariusz Lozny – Analyst, Bank of America

Okay, great, thank you very much. I'll turn it back here.

Operator

Thank you. The next question will be from Rob Hope at Scotiabank. Please go ahead.

Rob Hope – Analyst, Scotiabank

Good morning. I want to follow up on the outlook for guidance relative to power pricing. Can you maybe walk us through some of the puts and takes that you're seeing just in terms of your guidance? You highlight potential upside on the energy pricing, and you do have gas locked in there, as well, or a good portion of it, so I would imagine that should be a tailwind as we go through the rest of the year. Are there any other headwinds that you're seeing, or, directionally, are you looking better than you expected when you put out guidance?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, when we looked at the first quarter—by the way, Rob, good morning—when we looked at the first quarter, we had a bunch of sort of one-time events that impacted the quarter, as well, a little bit. There was a provision that actually went through our numbers in Q1, that we don't expect to have any issues with on the balance of the year, and, candidly, Q1 also reflected some of the costs from just the leadership change that occurred in 2021. Those are not things that we would expect to impact the Company on a go-forward basis.

I think you've got it right, I think we're pretty comfortable in terms of our gas position. We've seen the market pricing reflect—I think there was a bit of what I would refer to has heat rate compression kind of in the first quarter and we're seeing that improve a little bit in Q2, Q3, Q4. We're very happy with where our trade floor is, candidly, progressing. Pretty strong April, I would say, Todd, and we're pretty pleased with where they're sitting. So, net/net, we feel pretty good about the guidance in terms of where we are.

We're also expecting better performance from Centralia, certainly in Q2, Q3, balance of the year. Q1 was pretty anemic. I think the pricing we saw in the Pack Northwest was weak, I would say, and yet our coal delivery costs, which we've basically locked in for the balance of the life of that facility, trended a little bit higher, but we're seeing strong pricing there, and continued strong pricing for the balance of the year. So, overall, certainly more, I would say, tailwinds than headwinds, that's for sure.

Todd, I don't know if you want to add anything to that.

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

Yes, I was going to highlight Centralia. The energy transition segment, we do expect it to decline year-over-year through the retirements of the some of the units in there. Centralia was, I would say, off the mark in Q1.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

The other thing I would say, Rob, is we are expecting to turn on the revenue tap, I would say, from Kent Hills, as we begin the rehabilitation. It is our expectation that we'll actually see that rehabilitation work pretty quickly, would be our plan, and begin getting that in a place where we want it to be.

Rob Hope – Analyst, Scotiabank

All right, and just as a follow-up, like, conceptually, TransAlta's been relatively heavy on the wind development side versus solar, which is a benefit right now just given where you're seeing supply chain. As you move forward, does this cause you to double-down on wind and potentially push off some of the solar development, just seeing the increased challenges we're seeing on the solar side versus wind?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, I think—look, we take a long-term view of terms of kind of what the mix of technology will be. I think right now, I think you've got it exactly right in terms of the wind versus the solar, and, frankly, we have a lot more experience in wind development than solar. Solar is something that is relatively new to us. I mean, our Northern Goldfields project was really the first TransAlta-built solar project that we have. We continue to see a lot of opportunities on the wind side. When you look at our development pipeline, it’s, for sure, weighted more to wind than it is solar, but we’re just mindful of solar because we see it as a pretty disruptive technology going forward and something for us to keep an oar in the water on, for sure.

Rob Hope – Analyst, Scotiabank

Appreciate the colour. Thank you.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Thanks.

Operator

Thank you. The next question will be from Mark Jarvi at CIBC. Please go ahead.

Mark Jarvi – Analyst, CIBC

Thanks. Good morning, everyone. Just coming back to the outlook for the balance of the year—you talked about the gas hedges and the rising power prices—if you look at your coal-to-gas conversion assets, do you think spark spreads will expand through the balance of this year, or kind of hold those flat given the current dynamics?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, it’s a great question. Good morning, Mark. Our expectation is that they’ll improve a bit, I think, certainly improve over what we saw in the first quarter, I would say. Our team looks at it regularly.

Gas prices are certainly, I would say, higher than we anticipated that they would be, Todd, as we went into the year, as we were looking at the hedge position, overall, for the portfolio for the year, but we are expecting to see a little bit of an expansion.

Mark Jarvi – Analyst, CIBC

Okay, and then any hedges, material hedges beyond 2023? You guys gave nice disclosure for this year and some of next year, but anything a bit longer term on the gas side?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, I would say—Todd, I'm just going from memory. I think the longest term that you would typically our hedges would be sort of three years, is what I would say, typically, and they tend to roll over, and I think I would say kind of weighted average kind of age, I'd say, of the hedges would be probably a year-and-a-half, kind of in that range.

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

On the power side.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

On the power side, that's right. Sorry, on the gas side, just in terms of gas supply, yes, it's very much 2022, in terms of the position that we're in, and we like where we are in terms of the first third of the year for 2023.

Mark Jarvi – Analyst, CIBC

Okay, and then just a couple on the quarterly filing around the hydro segment—I think there's comment in there. I mean, it's a little bit lower, a bit more competition, also some higher O&M. Can you talk about how that kind of persists in terms of the O&M and the competition. Can you give some colour around what happened on the ancillary side of things?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Sure. Todd, do you want to—I mean, we can both take it. Why don't you go ahead?

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

I'll just the OM&A discussion. Mark, really, I think it's noted in there that insurance costs were really probably one of the main drivers, probably accounting for a third of the increase, if not more, of the costs, and that is a trend that you will see for the balance of the year. Really, it is our most valuable asset, it has one of the highest coverages in our insurance policies, and so it bears the brunt of what I'll say is rising costs associated with insurance that we're seeing across the industry.

John, I don't know if you want to talk about ancillary services.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, no, I think we should talk about ancillary services. We did see a bit more competition on the AS side, but I don't think that that was really the major issue. When we talk to our team, I mean, I think our AS prices in Q1 of 2021 were roughly in that $67 range, and I think for this quarter, they were in the mid-$40 range, I think, Mark, and so that's a pretty big difference year-over-year.

The judgment of our sort of Optimization Team would have been more around the fact that there was just a lot more volatility last year, so the path to the—we often talk about average prices, but the path to how you got there is actually more important than, many times, what the average price was, and just the volatility that we saw, particularly in February last year, would have been the difference, really, year-over-year in terms of how the portfolio performed and the pricing that it got. In fact, I'm just going from memory, I think, volumetrically, we were actually ahead year-over-year both on the energy and on the AS side for the hydro portfolio.

So, not worried about our market share, per se, right now. It was just reflective of kind of the pricing dynamics that we saw in the province in the first quarter, I would say, more than anything.

Mark Petrie – Analyst, CIBC

Fair enough. Okay, thanks for the time, everyone.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Thanks, Mark.

Operator

The next question will be from Ben Pham at BMO. Please go ahead.

Ben Pham – Analyst, BMO Capital Markets

Hi, thanks. Good morning, everybody. You announced the Garden Plain's additional contract and Amazon as a counterparty. I'm wondering, for you to succeed there, more than any other renewable power company, what are the corporate PPAs looking for? What gives you, or anyone else, a competitive advantage to take more counterparties on the contracting side?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Good morning, Ben. Great question. Look, when we look at—and, look, I can only speak to what we're doing and kind of the experience that we have in the marketplace. I think one of the key differentiators for us is—and, look, this is just based on feedback that we're getting from the customers that we work with—is really, I would say, three things.

One, they really like, I think, the high, high customer service approach that we end up taking with the customers. That's something we've been working very deliberately on. We actually have training programs, and the like, within the organization to try to get into kind of a high-touch, highly responsive kind of ethos around dealing with customers as we go forward. So, I would say that we would one.

Two, for a number of the customers that we deal with, the fact that we have kind of broad generation expertise and actually optimization and training expertise, they just like having discussions, and sometimes we get involved in helping them think through and plan how they are on their own decarbonization journey; and, candidly, the journey that we've been on, I think is notable and something that many kind of refer to and sort of want to have the discussion as it relates to us. So, I would say that would be the second thing.

The third thing is a lot of them aren't sure that they're going to actually get the projects that they bargain for. There's been more than one instance, pretty much all the markets that we're in, where people thought they were getting something and it just wasn't delivered by a developer at the end of the day. They know when they come to us, we'll get the project done, and we'll get it done on time and they'll get what they bargained for.

Hopefully, that gives you a bit of a sense.

Look, we have a lot of experience in operating wind, we have a very strong Supply Chain Team, really good relationships with the OEMs. Those are also things that we end up leveraging. But, I just wanted to give you a sense of just some of the more qualitative factors that people are looking at, that we're looking to differentiates ourselves on.

Ben Pham – Analyst, BMO Capital Markets

That's very helpful, thank you. Then, I want to ask, also, what are you thoughts around offshore wind in the U.S.? You have Eversource looking to monetize, and then there's some additional leases, I think, that are going to be opened up. Is there any interest to even consider looking at that, that technology?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, you know, Ben, over the years had opportunities, and obviously when opportunities come to the table, they're brought to the attention of the Company and our M&A Team looks at them. We're not actively pursuing anything right now. Opportunistically, if something came up, we would potentially look at it, but it's not kind of a core competency that we have. I mean, it's a pretty different game to develop and service that kind of a facility versus what we're used to, our bread-and-butter, in terms of onshore wind. So, it would be a pretty unique—I think it would have to be a pretty unique circumstance that would require us partnering with somebody to get it done, but it's not—how can I put it—it's not of top of mind in terms of what we're focusing on from development.

Ben Pham – Analyst, BMO Capital Markets

Okay, great, got it, John. Thank you.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Thanks, Ben.

Operator

Thank you. The next question will be from John Mould at TD. Please go ahead.

John Mould – Analyst, TD Securities

Thanks. Good morning, everybody. I'd like to start with a question on co-gen. I guess, maybe, firstly, are you seeing any appetite for on-site co-gen right now, and have you got appetite to allocate capital to new co-gen development in Canada or the U.S., given your focus on renewables; and then, maybe, how are you thinking about co-gen over the long term in Canada, just give our decarbonization targets and maybe uncertainty about how it's going to be treated under the Clean Energy Standard, more broadly?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, good morning, John. I think you've kind of foreshadowed kind of the response, I think, through your comment at the end, but what I would say is, look, it's—when we looked back, probably, two or three years ago, I think we expected—and in the context of kind of the regulatory environment of the day—we expected, probably, to see more runway, in fairness, around co-generation, and had a team internally that was pursuing a bunch of that. We've seen that fall off, candidly. As you know, it isn't sort of one of the core areas that we're looking at, from a growth perspective, in terms of our Clean Electricity Growth Plan.

Having said that, we are involved with discussions and we're pursuing some opportunities on, effectively, co-gen developments, but interestingly, you know, they're typically for existing customers in terms of meeting their needs, and also, certainly, a greater amount of focus on them potentially being non-gas; for example, being hydrogen-fueled, as opposed to being natural gas, in terms of the fuel source that's basically used for the facility.

I think you hit the nail on the head on the regulatory environment. It still feels—I mean, directionally, we think it's going to be increasingly challenging from a gas perspective, to be sure, but it's pretty opaque and I think making those big kind of bets is challenging. I think we see it as sort of risky, unless it's in the context of serving a good customer, particularly existing customers, that we have long-standing relationships with.

John Mould – Analyst, TD Securities

Okay, great, thanks for that, and then maybe I'll just ask one more on development. In Québec, specifically, you have a couple of operating sites there.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes.

John Mould – Analyst, TD Securities

With 2.3 gigawatts of tenders coming and presumably more appetite there in the long term, are there any opportunities for you in terms of expanding those sites, with or without local partners, and maybe some longer term greenfield opportunities? How are you thinking about that market?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, it's a great question. We have done a little bit of work to see if we can maybe increase the size of some of the footprint that we have there, because in some of the other jurisdictions, that is one of the things that we're looking at kind of to grow our pipeline. I think it'll be challenging, and as you've seen from sort of our disclosure on where our pipeline is, we don't have a lot of sites—well, we don't have any sites, frankly, other than our existing sites, in Québec, so, for sure, there's an opportunity there for other folks to be able to bid into it.

If an opportunity comes our way to joint venture with somebody, we wouldn't say no to considering something like that, but I don't really see us as being a proponent in the RFPs that we're seeing coming into that jurisdiction right now.

John Mould – Analyst, TD Securities

Okay, got it, thanks. I'll hop back into queue. Thanks for taking my questions.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Thanks, John.

Operator

Thank you. The next question is from Andrew Kuske at Credit Suisse. Please go ahead.

Andrew Kuske – Analyst, Credit Suisse

Thanks. Good morning. Maybe an easy one to start, and it's really just how do you think about the water levels and hydrology situation in B.C. and the Pack Northwest right now, and the outlook over the summer months and then into the fall?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Hey, good morning, Andrew. Yes, I never know if those are actually easy questions, right, but, look, I would say right now I think we are thinking that it is a bit below what I would call a normal year, a little bit below a normal year in the Pack Northwest, I would say. I think we're expecting Alberta to be fine, like pretty good, in terms of where we are.

Going down to California and further south on the West Coast—because we tend to look at it as almost an integrated market given the flows and the way our trade floor can wheel power along, given sort of some of the transmission rights that we have—very, very dry in California. Like, I would say—I mean, Todd, you and I were looking at this just the other day—like sort of shockingly dry …

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

Terribly.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

… from kind of the Oregon/California border south. So, I'd say a bit below kind of the mean in the Pack Northwest, and pretty normal to okay up here, but we'll see what the spring rains are like and how things evolve over the coming months.

Andrew Kuske – Analyst, Credit Suisse

Okay, appreciate that. I won't preface this one as easy or hard, but if you look back over the last five or 10 years, with the balance sheet improvements, the coal-to-natural gas program that you had, and really just the market transition in Alberta, you went through a lot as an organization, and now as you think about TransAlta and positioning it more to a growth mode, where do you think you are in that process just sort of internally on refocusing on growing versus all the stuff that you've accomplished in the last—pick a timeframe—two years, five years 10 years?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

You know, it's interesting, we're doing really, I would say, three things around that.

The first one is—and I think the work that's involved in doing this can't be underestimated. We're actually in the process of really working on a cultural shift within the organization, and recognizing that we are moving into a growth orientation, a real strong customer service orientation, getting to a place where there's technological disruption that's occurring within the organization, very much focused on a results orientation within the Company, a real strong learning orientation, and a strong orientation towards purpose, as we shift our culture from what it may have traditionally been, given the nature of the Company a decade ago, or even half-a-decade ago, to where it is today, and that's something that we're very deliberate about, I would say, Andrew, in terms of the shift that's taking place.

The second would be just the very strong—you know, making sure that the capabilities within our Growth Team are up to snuff in terms of what we need to move it forward, and that's not just on the sourcing and contracting side of the equation, but also just on execution. I mean, we're building a lot and having the right skill set there, the right project managers, the right sort of contracting strategies to make sure that we lock down our costs are also critical to us going forward. As part of that, our new Energy Innovation Team is a critical part of kind of looking forward five and 10 years, in terms of what is coming forward.

The second thing that we're really focusing on is using data and innovation, and just what we call our One TransAlta Platform internally within the organization, which has evolved—and you'll remember this from Greenlight, Andrew—to really make sure that we have a singular approach to maintenance, we're using data, as well as we can, to make appropriate maintenance decisions for the fleet, trying to figure out, you know, do we need an LTSA, can we do it internally, what kind of benefits can we bring to bear on the whole fleet.

So, hopefully, that gives you some of the flavours, but we are very much focused on bringing kind of the capabilities and the culture of the internal organization along to where it needs to be to compete effectively for the aspirations that the Company has.

Andrew Kuske – Analyst, Credit Suisse

That's very helpful, thank you. I appreciate the colour.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Sure. Thanks, Andrew.

Operator

Thank you. Your next question is from Maurice Choy at RBC. Please go ahead.

Maurice Choy – RBC Capital Markets

Thank you, and good morning. My first question is on dropdowns. I know that at the Investor Day you commented that around two-thirds of the plan may be suitable for dropdown candidacy. You've obviously made two U.S. projects, you moved forward with those, and you stated that those won't be dropped down. Maybe refresh us as to how you see what is or isn't suitable for dropdown, using Horizon Hill and White Rock as reference pieces, be it on a tax or a geography perspective, and whether two-thirds is still a suitable number.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, good morning, Maurice. Thank you for that. Look, when we look at dropdowns and how we're looking at kind of allocating the growth between the two companies, it certainly requires a more active discussion within the organization today, given, I think, the greater convergence in terms of the growth of the two companies going forward. I think when we think about it—and Todd can jump in here, too. TransAlta Renewables actually grew quite a bit last year, and in terms of the cash that it has available, from a growth perspective, it's solid, but it's actually TAC that is sort of the more liquid of the two companies right now, and actually is able to, probably, grow to a greater extent, I would say, than RNW is, in terms of just the cash, the organic cash flow that it has and cash resources it has available to it.

Then, in terms of geographies, which is the other thing that we tend to look at, when we look at the jurisdictions that really would be more impactful for growth for TransAlta Renewables, given its tax horizons and the benefit that it gets from depreciation and just the investments that we would make, certainly Canada and Australia would be more impactful at the RNW level, to be sure, and help maintain our cash flows, whereas the U.S. doesn't really do a heck of a lot to them. I think, at least when we think of it right now, certainly our U.S. assets, and you've seen it, I think, with White Rock and Horizon Hill, those would be more THC assets going forward.

Hopefully, that gives you a little bit of the sense that we're thinking about it. I don't think we've hardwired any particular percentage that would go to one versus the other at this point in time. It's sort of more of a fluid assessment on a project-by-project basis.

Todd, I don't know if you want to anything to that?

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

I think you hit the key points there, John. There was a question earlier on on the call about capital allocation, and that really is one of the key drivers of the White Rock and the Horizon Hill projects at TransAlta. When we halted the Sundance 5 project last September, we basically had all of that capital allocated to that project raised and ready to go. That's now being redeployed in those projects, and potentially other opportunities.

I'd just remind you again, as John mentioned, last year was a good growth year for RNW. It's got two projects on the go down in Australia right now, we just announced one this morning, and then it's also got the rehabilitation at Kent Hill, so it has a lot going on.

It's busy across the Company.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

I think what I would say, Todd, is a project like Garden Plain, which would be an Alberta project, solid, kind of middle of the road, 100 percent contracted now, that would be the kind of projects that we would conventionally expect to see belonging, probably, more in the RNW sphere than necessarily in the TAC sphere.

Maurice Choy – Analyst, RBC Capital Markets

Maybe just quick follow-up. No other U.S. development within your pipeline will be dropped down, based on that reasoning?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

No, I wouldn't say that it's as black line as that, but when you look at sort of the capital spending that RNW has and the projects that it has in full flight, at least for the foreseeable future, in the near term, we would expect the focus for RNW to be in digesting what it has, and I'm also thinking of Kent Hills, and also being helped, in terms of a tax, from more Canadian and Australian kind of focus, with TAC being more U.S., but I wouldn't be as prescriptive of that in terms of saying, no, there's a bright line there.

Maurice Choy – Analyst, RBC Capital Markets

My second and final question. Really, when it comes back to Alberta and your position in the market, obviously, in the past it's held a good market share in the market in terms of power production.

You still have your hydro facilities, and you made a comment earlier that you're comfortable with the market share there, but you moved to a peaker strategy with your thermal facility. So, big picture, your thoughts on balancing (inaudible) trajectory of your market share, and also the capital that you invest in the market.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, we're very much focused—and, you know, really, it's reflective of the characteristics of the fleet that we have right now and the way that it's operating, and we're also mindful of the kind of the demand and supply evolution that'll occur in the province, so we're less focused on market share now, to be sure, I would say, Maurice. We're very much focused on kind of just maximizing the value that we can from the fleet. For us, it's more about our EBITDA, free cash flow, are we really extracting premium pricing from the fleet that we have in the jurisdiction. It is a fleet that has more peaker-like tendencies, for sure, and that's really what the focus is. I mean, our wind fleet in the province, which is big, that's something that you get what you get when the fleet is running, but, certainly, from a hydro and a gas perspective, it's feeling more peaking.

The way we think of the market's evolution in the future is also that way. When I think of our water charger project that we're working to get off the ground, again, it's storage, we're thinking of AS, we're thinking of the kinds of products that the market will need as it evolves, and we see sort of a significant gas and renewables buildout going forward.

Hopefully, that gives you a bit of a sense. Our metric is availability, how is our pricing compared to spot pricing. That's more what we're focused on—what's our market share, certainly, on AS—than kind of saying we have x percent market share in terms of the overall generation within the province.

Todd, do you want to …

Todd Stack – Chief Financial Officer and Executive Vice President, Finance, TransAlta Corporation, and President, TransAlta Renewables, Inc.

I was just going to add that, really, I see the market share increase going to the renewables. Actually, we saw generation source (inaudible), so we're going to see more renewables built out, and our focus is getting a piece of that market share in that buildout.

Maurice Choy – Analyst, RBC Capital Markets

Got it. Thank you very much.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Thanks, Maurice.

Operator

Thank you. Your next question will be from Naji Baydoun at iA Capital Markets. Please go ahead.

Naji Baydoun – Analyst, iA Capital Markets

Good morning. Just a couple of questions on growth. You have Horizon Hill in the bank, and maybe Tempest coming up next. I guess, related to the topic of capital allocation, do you expect to fill the gap for your growth target this year with M&A?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

No, we do think that—I mean, if you put together Tempest, if you look at what we're looking at, for example, with Southern Cross in Australia, I think, if we can get something on an M&A perspective, that's great, and I think that's sort of gravy to what it is that we're trying to do, but we're very much focused on advancing our own pipeline to be able to get to that 400. We've got 200 now. I mean, Tempest would be at least 100 megawatts going forward. I think some of the opportunities that we see in Australia, excluding the transmission, would also be in that 50-megawatt range, and just based on the discussions that we're having, we see even more that we could add.

We take a pretty conservative approach when we talk about the pipeline that we have. So, if we have a twinkle in our eye, if I can put it that way, it does appear on the pipeline. M&A is a nice way to round things out, and I think our North Carolina solar is a great example of what we're able to do, and the team is busy right now and looking at a variety of opportunities, but I think our first line of execution is around our pipeline.

Naji Baydoun – Analyst, iA Capital Markets

Okay, got it, and then just maybe related to the topic of conservatism and managing expectations, you've secured 40 percent of your renewable capacity targets, but at 50 percent of the budget, although you're also ahead on the returns, because it's 55 percent on EBITDA. When you kind of put all those things together, maybe it's a bit soon, but do you plan to revisit these targets next year and perhaps exceeding your budget, but also exceeding the return on the EBITDA additions?

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Yes, look, we look at the target all the time, Naji. I mean, it's a great question. Let's put it this way, no decision has been made to kind of adjust the target at this point in time. My key focus, in all honesty, is really increasing our pipeline. So, as much as we're really, really focused on getting that 400, for example, this year, and getting it done, equally, if not more important to me today, would be to see that pipeline increase. We're looking at doing it, really, broadly, in three different ways.

One of them is through an assessment of the opportunities that we have around some of the existing facilities that we have. I've been pleasantly surprised by kind of the scope for expansion that we have around those facilities, and it's pretty cost competitive, given kind of the interconnections that you have there and the infrastructure that's there. So, that's one.

Two, just organic growth of opportunities that we have, and we have a number that we're working on there.

Then, finally, looking at potential acquisitions to tuck-in and increase the portfolio going forward.

I'd like to see us work on that before we would do any big sort of adjustment in terms of the target that we have. Want to make sure we execute well, too.

Naji Baydoun – Analyst, iA Capital Markets

Got it, and it does give you a bit of room just to be mindful of any uncertainties or really focus on risk management, as well.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Exactly.

Naji Baydoun – Analyst, iA Capital Markets

Okay, thank you.

John Kousinioris – President and Chief Executive Officer, TransAlta Corporation

Thank you very much.

Operator

Thank you. At this time, we have no further questions. Please proceed with closing comments.

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

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 very much, and have a great day.

Operator

Thank you. Ladies and gentlemen, this does, indeed, conclude your conference call for today. Once again, thank you for attending. At this time, we ask that you please disconnect your lines. Have a good weekend.