FINAL TRANSCRIPT

TransAlta Corporation

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PRESENTATION

Operator

Good morning. My name is Jenny and I will be your conference operator today. At this time I would like to welcome everyone to TransAlta's announcement of the Heartland acquisition 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 star then the number one on your telephone keypad. If you would like to withdraw your request, please press the star followed by the number two. Thank you.

Ms. Valentini, you may begin the conference.

Chiara Valentini — Vice President, Strategic Finance & Investor Relations, TransAlta Corporation

Great. Thank you, Jenny. Good morning, everyone. Welcome and thank you for joining our call. This morning we announced that TransAlta has entered into a definitive agreement with an affiliate of Energy Capital Partners to acquire the entire business operation of Heartland Generation. With me today to discuss this exciting announcement are John Kousinioris, President and Chief Executive Officer; Todd Stack, EVP, Finance and Chief Financial Officer; and Kerry O'Reilly Wilks, EVP, Commercial, Legal, and External Affairs.

Today's call is being webcast and I invite those listening on the phone lines to view the supporting slides and press release 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 conference call is subject to the forward-looking statement qualifications set out here on slide two. All amounts referenced during the call are in Canadian currency, unless otherwise noted. The non-IFRS terminology used, including adjusted EBITDA, are reconciled in the MD&A for your reference.

On today's call, John will provide an overview of the acquisition, and after these remarks we will open the call for questions. And with that, let me turn the call over to John.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Thank you, Chiara. Good morning, everyone, and thank you for joining us.

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 Métis Nation Region 3.

As Chiara mentioned today, I'm pleased to share with you that TransAlta has entered into a definitive agreement with an affiliate of Energy Capital Partners, the parent of Heartland Generation, pursuant to which TransAlta will acquire Heartland and its entire business operations. This opportunity will enable us to expand and enhance our generation capabilities to meet the opportunities and challenges of the energy transition.

The energy transition will require a careful balance of decarbonization, reliability, and affordability. As we look to the coming decade, the proposed changes in regulatory frameworks, and the potential for new technology pathways and timing, it is our view that diversity in generation capabilities and offerings will be important in maintaining our competitiveness in Alberta's energy-only market. This acquisition adds 1.8 gigawatts of highly flexible and complementary assets to our Alberta portfolio, including contracted cogeneration, peaking generation, transmission capacity, and development opportunities in hydrogen. These assets, acquired at a cost significantly lower than new build, will enhance our competitive positioning in response to changing market dynamics and, through the highly contracted revenues of the Heartland portfolio, add diversification to our cash flow profile.

The acquisition builds on our regional expertise in Alberta. We have over 112 years of experience building and operating electricity facilities here in the province and we can deliver significant value through our deep technical and operational experience with gas and cogeneration, knowledge of the local electricity market, and our asset marketing and optimization capabilities to ensure continuing safe and reliable generation in a dynamic and changing landscape. We will also maintain our leadership in decarbonization. Our clean electricity growth plan continues to be at the heart of our strategy and is dedicated to delivering clean electricity solutions to our customers. And our goals in relation to net zero and near-term emissions reductions remain unchanged.

The availability of the Heartland portfolio created an unexpected opportunity for TransAlta and the acquisition overall has attractive deal metrics. We were able to quickly evaluate its fit in the context of our targeted portfolio strategy for Alberta and we were able to secure it for excellent value. The transaction is valued at $658 million, inclusive of the assumption of $268 million of low-cost debt, and achieves an attractive EBITDA multiple of approximately 5.5x. The price sets the value of the portfolio of assets at approximately $357 per kilowatt, which is well below the replacement cost of current and other forms of reliable generation, and provides a low-cost expansion option to deliver reliable generation to the market demands of Alberta. The acquisition is highly accretive to free cash flow and will deliver a strong cash yield with an expected average annual EBITDA contribution of $115 million. The portfolio is highly contracted with 55% of its revenues contracted with high-quality counterparties. The customer contracts have a weighted average remaining life of 16 years and will provide added diversification to our cash flows here in Alberta and temper our merchant exposure. And finally, with our local presence in Alberta, we'll be able to drive corporate synergies of approximately $20 million on a pre-tax basis.

As previously mentioned, the Heartland portfolio consists of approximately 1.8 gigawatts of generating capacity made up of 10 facilities. Specifically, the portfolio consists of 507 megawatts of largely contracted cogen across Alberta and BC with customer contract expiries spanning from 2028 to 2043. And the associated PPAs are underpinned by long-duration and high-quality industrial customers. Secondly, there is 387 megawatts of predominantly merchant peaking capacity in Alberta, which will add efficient, fast-ramping, dispatchable assets to our fleet. Third, 950 megawatts of merchant coal-to-gas converted units where our knowledge and expertise in this asset class is industry-leading. And finally, there's 200 megawatts of transmission capacity on the Montana-Alberta Tie-Line transmission line, which is backstopped by a Northwestern Energy capacity contract until 2031. The portfolio also has a development pipeline, which includes the Battle River Carbon Hub. This project is a first-of-its-kind 400-megawatt integrated clean energy project combining clean hydrogen, production and carbon sequestration to create a zero carbon baseload electricity solution. The project would retrofit the existing generation facility at Battle River and utilize the existing transmission infrastructure to produce a zero-carbon power solution.

The transaction will require approval under the Competition Act here in Canada as part of customary closing conditions. We're confident that the transaction will be successful and anticipate that it will close sometime in the first half of 2024. We expect to fund the transaction price of $390 million using existing cash and available liquidity.

As you know, TransAlta is focused on facilitating the energy transition, where our electricity system can reach net-zero emissions while maintaining reliability. We will continue to invest in renewables and assess the best options to deliver energy storage. Our commitment to decarbonization remains unchanged and the Heartland portfolio continues to be aligned with our longer-term emissions reductions commitments given Heartland's considerable transition efforts. The acquisition facilitates our strategy of reinvesting the cash flows from our legacy gas assets to drive investments in clean generation and storage in Canada, Australia, and the United States. We also remain committed to achieving a 100% mix of renewables and low-emitting natural gas by 2025, reducing 75% of our Scope 1 and 2 GHG emissions by 2026 from a 2015 base year, in line with limiting global warming to 1.5 degrees Celsius, and achieving net zero by 2045.

I'd like to close by highlighting what I think makes TransAlta a highly attractive investment and a great value opportunity. First, we're focused on ensuring our cash flows are robust and underpinned by a high-quality and highly-diversified portfolio. Heartland will further expand our contracted portfolio, add to our efficient gas portfolio, and complement our unique reliable and perpetual hydro portfolio, all of which will benefit from our world-class asset optimization and energy marketing capabilities. The Heartland assets will also further diversify and increase the contractedness of our cash flows.

Second, we're a clean electricity leader with a focus on tangible greenhouse gas emissions reductions, not only for ourselves but also for our customers. We remain committed to decarbonization and finding creative solutions to reduce emissions, similar to the approach we've taken with our mining customers in Western Australia.

Third, we have a diversified and growing development pipeline and a talented development team focused on realizing its value. We look forward to adding the Battle River Carbon Hub to our development portfolio and assessing its opportunity for the future.

And finally, our Company has a sound financial foundation. Our balance sheet is strong and we have ample liquidity to pursue and deliver growth. This acquisition will be funded with available liquidity and we expect no change to our credit ratings on a post-transaction basis.

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

Chiara Valentini — Vice President, Strategic Finance & Investor Relations, TransAlta Corporation

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

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Questions will be taken in the order received. Should you wish to cancel your request, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. Once again, that is star one should you wish to ask a question.

Your first question is from Mark Jarvi from CIBC Capital Markets. Please ask your question.

Mark Jarvi — Analyst, CIBC Capital Markets

Thanks. Good morning, everyone. So maybe just first on the accretion you guys outlined in the press release and your comments about it being accretive. Can you quantify that? I'm just curious, when you think about accretion, is that on free cash flow? And I believe there's some amortizing debt on the cogeneration plants. How does that factor into sort of, I guess, accretion over the next couple years?

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

Yeah, maybe I'll start, Mark. It's Todd here. I think you're right, like our primary metric for accretion is on our free cash flow metric. It's probably in that $0.15 to $0.20 accretive per share.

Mark Jarvi — Analyst, CIBC Capital Markets

And does that factor in some amortizing debt and can you give us any sort of details in terms of whether or not you plan to reshape the debt or extend the debt maturities at all in these assets?

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

No, I think we're very happy with the debt structure that's in place there. It's a very low-cost debt. They did a good job of locking in some low rates there. It does amortize over time, and we'll take that in context of our larger portfolio, but it's good debt to have and we expect to keep it in place.

Mark Jarvi — Analyst, CIBC Capital Markets

Okay. And then you provided some numbers around percent of the revenue contracted. Can you elaborate a little bit on, I guess, maybe EBITDA, given the fact that revenue and EBITDA doesn't always quite line up if there's a material difference on the percent from an EBITDA level contracted?

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

Yeah, no, I think you should think about it as sort of they're very much in line. There's no big disconnect. It's probably around that 50% EBITDA contracted as well.

Mark Jarvi — Analyst, CIBC Capital Markets

Okay. And the last question for me, just in terms of how this impacts, again, the outlook for the clean electricity plan, it sounds like it's not changing there, but just in terms of how you think about internally financing what was or at least last update was $3.6 billion investment. Is that something you still feel you can do on balance sheet with current free cash flow projections and available liquidity?

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

Yeah, absolutely. We have sufficient cash today, even following the RNW transaction, to facilitate this project. In addition, we do still have well over $1.5 billion of liquidity available in the company. So we don't see it as impacting our future growth plans on a greenfield basis.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

And solid cash flows going forward as well in terms of the, you know, the future orientation of the company as we go in year after year into the future. So, I think we feel pretty comfortable in terms of our ability to finance it.

And just to put it into context, I mean the size of the acquisition is, you know, Todd and I were chatting about it earlier today, Mark, I mean it's ballpark about the same price in aggregate as our Horizon Hill wind farm [inaudible].

Mark Jarvi — Analyst, CIBC Capital Markets

Right. Understood. Okay. I've got some other questions, but I'll jump back in the queue. Thanks for the time today.

Operator

Thank you. Your next question is from Maurice Choy from RBC Capital Markets. Please ask your question.

Maurice Choy — Analyst, RBC Capital Markets

Thanks and good morning. Maybe I just want to come back to your comment, John, earlier about diversifying your Alberta fleet's capabilities, particularly given the market profile and the volatility from renewables. While some of these assets will obviously benefit from that, can you speak to what this may mean for your existing [inaudible] thermal assets, whether or not some of those may need to be rethought of? And also, as a quick follow on, is there anything in this portfolio that you may look to shed?

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Maurice, it's John. Good morning. I have to say, I had a little bit of trouble hearing your entire question. I think it must just be the way that the feed is coming in over our system. But I think what you were saying is how do we view the acquisition in the context of kind of the market and our existing fleet in the province of Alberta. I mean I think, when we look at it from an Alberta market perspective, I think having, setting aside the contracted cogeneration assets, which I think form a foundational element of the acquisition from our company perspective and create the kind of cash flows that help us drive our growth going forward into green, I think the more flexible assets like the Valleyview assets, the Poplar Hill asset, and even Rainbow Lake and Joffre, I mean those are very quick responding assets. They're more flexible than the kind of assets that we currently have in our existing Alberta fleet and I think they are right sized with competitive heat rates to be able to provide the reliability that we think the province will need in the future. And for us, as you've heard me say this before, it's all about a three-legged stool, it's about reliability, it's about affordability, and it's about decarbonization, and I think this suite of assets fits within that.

In terms of the more sort of coal-to-gas oriented units, it isn't an either/or kind of discussion for us. We still think that our coal-to-gas units and certainly the coal-to-gas units that are in the Heartland portfolio will continue to have need in the province. You often hear me talk about our units being Alberta-style thermal units where there will be periods of time where they will absolutely be needed. And when we look at the kind of capacity factors we expect, certainly next year, we think they're going to be ready. So hopefully that gives you a sense. I hope I heard the question right, Maurice. I think I did.

Maurice Choy — Analyst, RBC Capital Markets

You did. And maybe just to make sure that I get the end of that question in there, you've also got three contracted assets in there. Is there a need to have those? Do you have any assets in this portfolio that you might want to sell or at least bring down your ownership?

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

I mean right now, in terms of where we are, we're comfortable with the assets. We're excited to be able to, when the transaction closes, be able to serve customers like those that Heartland has done a great job serving and, you know, like the Athabasca oil sands project and Scotford with CNRL and companies like Shell and Chevron and even BC Hydro in BC and Nova Chemicals as well. I think they're great customers, I think they form really the spine of industrial Alberta, and are really excited about serving them.

Maurice Choy — Analyst, RBC Capital Markets

Great. And maybe if I could finish off with a rather big-picture question. John, I remember when you first were made CEO, one of your early decisions was to forgo the Sundance Unit 5 repowering given the policy landscape, including at the federal level, and the company took a more stronger focus on renewables. Fast forward to today, you've chosen to acquire some gas assets while the renewable sectors seem to be challenged at the moment. What is your view now about gas as a technology of focus for TransAlta? And if you could layer in some views about the policy landscape, that'd be great as well.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

It's a great question. I don't think our views have actually changed, Maurice. I think our investment is really based fundamentally on our convictions, and those convictions would be that, for example, renewables will continue to be in demand and will continue to come into the marketplace. We think that, over time, renewables will become ever more cost effective and competitive. But we also believe that there is a role for natural gas in providing that backstop and reliability that markets will need and, candidly, in the absence of significant changes in technological pathways and costs, we continue to see an important role for natural gas.

And from a TransAlta perspective, our strategy has always been predicated on the notion of having a competitive legacy thermal gas fleet to be able to create cash flows to help drive the build out of the green portfolio that we actually have. I think this aligns with that. I think when we look at the kind of evolution that we see in the market dynamics, both in terms of the increased intermittency from renewable build out having more flexible assets and assets with the kind of heat rates that these have in a jurisdiction that we know intimately well, I think it just made a lot of sense for us given the economics that we had. So, we acted on it and are excited about the ability to bring these assets in and the Heartland team as well.

Maurice Choy — Analyst, RBC Capital Markets

Thank you very much.

Operator

Thank you. Your next question is from John Mould from TD Securities. Please ask your question.

John Mould — Analyst, TD Securities

Hi. Good morning, everybody. Maybe just starting with your comfort on potential electricity market changes and how that kind of factored in your thinking on economics, I know it's very early days for the process that was announced in the throne speech, but if we see an evolution towards the capacity market, if we see changes to bidding, what kind of a downside scenario for EBITDA did you consider when evaluating the deal just given everything that's happening in the Alberta market right now, I guess both in terms of market structure and also some of the new entry that is pending over the next 14 months?

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Yeah, John, good morning first of all. In terms of sort of the evolution of the marketplace in Alberta, look, I think every market that we're competing in and operating in is facing evolution right now and it's happening at various different paces. At times it's rapid; at times it's a little bit slower. With Alberta, as you know, there are three main pathways that are being evaluated right now by the government. The first one is just on competitive bidding behaviour and the FEOC Regulation we have here. The second one is broadly just market pathways and trying to understand if the market construct that we have in the province makes sense given the penetration of renewables and the need for reliability going forward. And then finally the pause that we have with renewables to make sure that they're being brought in an appropriate and responsible manner.

Look, we're involved in all of those consultations and are participating in a way that makes sense. In many respects, they're addressing issues that we had identified in the province years ago and had been asking folks to actually consider addressing, so we're comfortable with the evolution that's happening. Are you able to tell with 100% certainty how it's going to evolve? I think there'll be twists and turns as time goes by, but we remain confident with the fundamental needs of the province for power, the need for increasing electrification if we're going to meet our decarbonization goals. Growth has been very high in the province of Alberta and I think increasing flexibility and diversity of generating portfolio will be critical. And it's really those foundational elements for us that made sense to bring assets of this type, at this cost in particular, within the fold to really buttress our existing portfolio here in the province with the view of where we think things are going from a long-term perspective.

So we take a very conservative approach to valuations and pricing and we feel very, very comfortable with the consideration that we're paying for the fleet.

John Mould — Analyst, TD Securities

Okay. Thanks for that. And maybe just on the competition side of things and how you're approaching the more kind of formal aspects of the competition process, can you maybe frame this a little bit in the context of the FEOC requirement? I think this probably puts you towards the upper end of the 20% range, because that's granted just in terms of offer control, and that's before some sizable new entry. I guess can you just lay out the timing of the competition process and how those elements may feed into that process?

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Sure. We will need regulatory approval. Actually, we need a few different kinds of regulatory approvals, both in the US given the intertie into Montana and also in BC given the facility that we'd be looking there at McMahon, and then obviously Competition Act approval at the federal level in Canada. That's a relatively lengthy process we anticipate now, so that's why we're expecting closing to take place kind of in the latter part of the first half of 2024. So, we do expect it to be an appropriate and rigorous process.

In terms of FEOC here in the province of Alberta, there is no change from our perspective from an operational process. Heartland will operate their assets independently and in accordance with the fair, efficient, openly competitive market structure. We do the same thing with our assets in a competitive way. We would continue to do that after the completion of the transaction. As Todd mentioned at the beginning of the call, we see forward prices declining quite a bit in the province, you know, into those kind of mid-$80 levels, I would say, Todd, into 2024. And I think, John, to your point, that's reflective of all of the increase in supply that's coming into the province, which is considerable. And it's not just on the renewable side, it's also on the gas side when we see the kind of investments that Capital Power is making, the Cascade plant, Suncor is making. So, we think there'll be a lot of supply.

I think it looking at kind of nameplate ownership today versus what it will be a year from now, where it will be considerably lower than what it is per day is something that I think needs to be considered and I think, more importantly, looking at the percentage of generation that the fleet actually generates, which is, in the grand scheme of the power that's generated in the province of Alberta, relatively modest. I mean I think of it is as sort of a 10% give or take kind of range in terms of what's being generated. So hopefully that gives you a bit of a sense.

John Mould — Analyst, TD Securities

Okay. Yeah, that's great. Thanks. And then maybe just one small question on the transmission capacity contract you hinted at earlier. Can you maybe just give a little more colour on how that fits into the portfolio more broadly?

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Yes. So the transmission is 400 megawatts, I think?

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

200. Sorry.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Sorry, did I say 400? 200, you're right. Which a chunk is contracted. And I forgot how much it is, Todd.

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

150 is contracted through to [inaudible].

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Until, I think, it's 2031. So there's an income stream that comes from the contracted portion and then we maintain that small residual open piece that our team is able to actually use to potentially flow power south given what we see as sort of an increasing integration of kind of the power system, you know, Montana, Pacific Northwest into Alberta. So, we actually quite like the transmission part of this and it was an important part of the future.

John Mould — Analyst, TD Securities

Okay, great. I'll get back in the queue. Thanks very much.

Operator

Thank you. Once again, as a reminder, that is star one should you wish to ask a question.

Your next question is from Ben Pham from BMO. Please ask your question.

Ben Pham — Analyst, BMO Capital Markets

Hi. Thanks. Good morning. I was wondering if you can comment on how competitive you thought the process was.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Oh, Ben, good morning. I really can't answer that. I have no way of knowing. I know that there was a process, that we were a participant in the process and ended up prevailing at the end of the day. So I really can't comment.

Ben Pham — Analyst, BMO Capital Markets

Okay. Can you maybe then comment on some of the assumptions that you're assuming for the EBITDA, especially the Alberta power price assumption, maybe the gas and maybe the carbon tax?

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Happy to do that. I mean you have to remember that the majority of the revenue, and as Todd suggested, half of the EBITDA is pretty contracted, so we have a pretty broad sense. When you look at the total EBITDA number that we talked about, like a lot of that's pretty fixed, so we're able to look at, over the entire contracted period, whether it be into the late 2020s and in some cases and in many cases into the early 2040s what those income streams and revenue streams are going to be.

With respect to the merchant fleet, look, we always use our internal forecast. I can tell you that the amount of daylight between our internal forecast and some of the public forecasting you're seeing in terms of pricing in the province of Alberta aren't all that different, I would say, right now. And we have a view on what the capacity factors of the various plants would be and we would expect the peaking plants to run like peakers, so we don’t clearly expect them to run like baseload generation.

And then with respect to carbon pricing, I think our expectation is that we continue to see that $15 a year increase all the way out to 2030 as kind of a base case in terms of what we’re expecting in terms of two-year and what the federal government currently has in place. So we don’t take differing views of what we think is going to happen from a carbon pricing perspective. So I’d say, from a TransAlta perspective anyways, pretty middle of the fairway kind of assumptions for us.

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

Yes, Ben, as you can imagine, we ran a lot of scenarios, you know, high, low, mid cases both on price, dispatch capability, potential outcome. Natural gas, we generally rely on sort of what the forward market is on natural gas and use that as the input into our power forecast going forward. So the EBITDA that we quoted is as quoted an average number and it will range around that on a number of factors.

Ben Pham — Analyst, BMO Capital Markets

Okay. I wasn’t sure, lastly, if you mentioned, was that a five-year average or is that through this decade?

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

That’s right. It’s a five-year. Correct.

Ben Pham — Analyst, BMO Capital Markets

Okay. Okay, thank you.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Thanks very much, Ben.

Operator

Your next question is from Patrick Kenny from National Bank Financial. Please ask your question.

Patrick Kenny — Analyst, National Bank Financial

Thank you. Good morning, guys. Just first on the EBITDA guidance, so just wondering if there's any ramp to fully realize the $20 million of synergies. And then also I guess if you were to back out the synergies but take actual power prices and generation over the last 12 months if you had a transaction multiple on an LTM basis as well.

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

Yeah, we don't have… So we don't have access to their specific EBITDA.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Yes. So, on the $20 million synergies, maybe, Patrick, I'm happy—first of all, good morning. Sorry. Happy to chat about that. We think we'll be able to realize those in a relatively short order, candidly, following closing. So I would have thought that the first two quarters following the closing we would end up, I think, dealing with much of that from a synergy perspective. And then in terms of sort of your question on EBITDA, Todd, you can take it off line, but I'm not…

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

We can take it off line. It's, just given where the power prices were over the last couple of years versus where they're going to in the next couple of years…

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

It's sort of apples and oranges.

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

It is apples to oranges. So, to my point, we didn't put a lot of weight on historical performance and we focused on future performance.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

In fact, you know, when we looked at our own investment thesis, both with our management team and our board, it was all forward looking. I can't even recall there being a backward look.

Patrick Kenny — Analyst, National Bank Financial

Got it. And then also within the $115 million base case guidance there, is there any uptick to your margin outlook for your trading business pro forma?

Todd Stack — Executive Vice President, Finance & Chief Financial Officer, TransAlta Corporation

No, the energy marketing segment encompasses our operations in the US, not in Alberta. Within Alberta, we haven't looked at or included any synergies in the Alberta current fleet.

Patrick Kenny — Analyst, National Bank Financial

Okay. So that could be upside to the energy marketing business. Okay. And then you mentioned in the release the low-cost profile of the assets. Not sure how granular you can get on variable cost, but just maybe you can walk us through where you see Battle River and Sheerness sitting on the merit curve relative to the other coal-to-gas converted capacity in the province, including our own.

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Look, what I would say is we looked at it as a portfolio, Patrick. And when you look at the cogen, it won't come as a surprise to you, and the way I tend to think of cost competitive sets and I think heat rates, for example, they're the kind, the heat rates you'd expect cogen plants like that to have. I would say, Todd, kind of 6s to 8s would be the kind of, depending on the plan, obviously, and its configuration going forward, so pretty good shape there. I think the peakers would be, again, it depends on where you're at, but again, sort of in that sub-10, I would say, sort of range. And Sheerness, I would view the Sheerness units, Todd, as being broadly in line with most of the coal-to-gas units that you would see in the province there and the Battle River plants would be probably a little bit less efficient than that. A little bit older, a little bit smaller too in terms of some of the other plants, directionally speaking, with, again, a bit of a higher heat rate than certainly the gas plants are, and a bit less flexibility too as well.

Patrick Kenny — Analyst, National Bank Financial

Okay. Thanks for that colour. And then just last one for me, if I could. I guess just looking at the 1.8 gigawatts of capacity relative to the size of the Alberta market and relative to your leading market position as it is, maybe you can just walk us through, John, what gives you the confidence from a regulatory perspective that you won't run into any major issues on the competition front?

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Yeah, I mean we, ah, I think, as you know, Patrick, the offer control requirements in the province at, I think it's a 30% limit, you can't be over 30% of, and that's just installed capacity. That doesn't really reflect what the actual impact and actual generating, you know, electrons you're actually creating. We would be well underneath that and, frankly, that number would decline pretty dramatically by the end of next year with the addition of the new gas plants that we see coming into the province of Alberta, let alone all of the new renewables build.

So I don't think you can look at the ownership position today. I think you have to more realistically look at what it's going to be following closing, which is many, many months away. And so, from my perspective, I think the right way to look at it is where are you in 2024, 2025, 2026. It continues to decline pretty dramatically. And I think what really matters is how much electricity are you generating in the province and we see that as being very, very competitive. I think we see that as becoming more competitive as time goes by and I think that's reflected in the fact that you're also seeing electricity prices being expected to decline pretty dramatically in 2024, I think roughly a 40% decline from where they are today.

Patrick Kenny — Analyst, National Bank Financial

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

John Kousinioris — President & Chief Executive Officer, TransAlta Corporation

Thank you, Patrick.

Operator

Thank you. Once again, should you wish to ask a question, please press star one.

There are no further questions at this time. Please proceed.

Chiara Valentini — Vice President, Strategic Finance & Investor Relations, TransAlta Corporation

Well, 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, the conference has now ended. Thank you all for joining. You may all disconnect.