

# TransAlta's CEO Hosts Annual Meeting of Shareholders Conference (Transcript)

Apr 23 2013, 22:41 | about: [TAC](#)

## Executives

Maryse St.-Laurent - Vice President, Corporate Secretary

Gordon Giffin - Board of Director

Dawn Farrell - Chief Executive Officer

Sandra Evans - CIBC Mellon Trust, Transfer Agent

Jennifer Villareal - CIBC Mellon Trust, Transfer Agent

Gordon Graham - Auditors, Ernst & Young LLP

Paul Taylor - President, U.S. Operations

Brett Gellner - Chief Financial Officer

Cynthia Johnston - Executive Vice President, Corporate Services

Dawn de Lima - Chief Human Resources and Communications Officer

Rob Schaefer - Executive Vice President, Corporate Development

John Kousinioris - Chief Legal and Compliance Officer

Ken Stickland - Chief Legal and Business Development Officer

Bob Emmott - Vice-President and Chief Engineer

Hugo Shaw - Executive Vice President - Operations

## Analysts

TransAlta Corp. ([TAC](#)) Annual Meeting of Shareholders Conference Transcript April 23, 2013  
3:00 PM ET

**Gordon Giffin**

Welcome. On behalf of the Board of Directors, it is my pleasure to welcome you to our annual and special meeting of the shareholders of TransAlta Corporation. Our Board of Directors and our Management very much appreciate your interest in being with us today. My name is Gordon Giffin and I chair the Board at TransAlta. And I will act as chair for this meeting.

Our Vice President and Corporate Secretary, Maryse St.-Laurent, seated on the far left of you will act as Secretary of the meeting. Of course, our CEO, Dawn Farrell is here and you will hear from her later in the meeting. Our meeting is being webcast live and so we also welcome those who are joining us electronically.

Clearly, we welcome those of you who are shareholders here but I expect we also may have some proxy holders present. Those who were shareholders or proxy holders as of March 1, 2013 are entitled to vote or to take an active part in the formal business of the meeting. Should you wish to speak during the meeting, we ask that shareholders or proxy holders identify themselves stating their name and whether they are either a shareholder or a proxy holder.

After the end of the formal business of the meeting, I'll make some brief comments on behalf of the board. And Dawn will address the greater operations and strategy of the company for your information. Following those presentations, we'll undertake to have a question-and-answer period.

Before I call the meeting to order, I'd like to ensure that everyone is familiar with the location of the emergency exits from this room. Hopefully that won't be required. There are two exits at the back of the room. And in case, we have a disruption of power which, of course, won't be the responsibility of TransAlta, the exit signs will illuminate. And should there be a need, please proceed diligently but in a calm fashion to the nearest exit.

If you don't mind turnoff any cell phones or other electronic devices somewhat like you would on an airplanes since we've now close the doors. I'll now call the TransAlta Corporation annual and special meeting of shareholders to order.

We will first go through the formal parts of the meeting. Mrs. Sandra Evans and Jennifer Villareal of CIBC Mellon Trust, the company's transfer agents are in attendance today. And I appoint them to act as scrutineers for the meeting.

I hereby ask Ms. St.-Laurent to file with the records of this meeting, the proof of service and the notice of this meeting which was mailed on March 14th of this year to all shareholders of record at the close of business as of March 1, 2013.

The scrutineers have provided me with a preliminary report on attendance, and the count indicates that 1,366 shareholders are present in person or by proxy, representing 95,832,745 common shares of stock. And accordingly 37% of the common shares outstanding are represented at this meeting. I therefore declare that a quorum is present and that this meeting is properly constituted for the transaction of business. A copy of the scrutineers' report will be filed with the records of the meeting.

In order to have the meeting move smoothly, we have asked for a number of TransAlta employees who are in attendance and are also shareholders or proxy holders to move and second motions to be put before the meeting.

Starting with the minutes of the last annual meeting of shareholders, which was held on April 26 of last year, I declare that they have been verified and signed and are filed with the corporation's minute book. Anyone wishing to see a copy of the minutes of that meeting may pick up one from the table located in the lobby outside this room.

The next item is the receipt of the annual -- the receipt of the annual consolidated financial statements of the corporations and the auditor's report for the year-ended December 31, 2012. The annual consolidated financial statements of the corporation and the auditor's report are contained on pages 69 through 141 of our Annual Report and were mailed to shareholders in accordance with securities laws together with the notice of this meeting on March 14th.

Copies are also available in the lobby outside this meeting room. And I request the secretary to file a copy of the annual report with the minutes of this meeting. Mr. Gordon Graham, representative of Ernst & Young LLP, the auditors of the corporation is available at this meeting to answer questions on behalf of the auditors.

The next item of businesses is the election of directors. The Board has set the number of directors to be elected at this meeting at 11. We are satisfied that this number is appropriate to provide a significant range and depth of expertise and to meet corporate governance requirements.

I would like to introduce the directors standing for election to the Board and ask that the directors stand when I call their name. William D. Anderson, representative of Toronto. Bill has been a director since 2003. He was President of BCE Ventures and prior to that, he was the Chief Financial Officer of BCE. He has an extensive financial experience and has executed numerous corporate transactions in restructuring. Bill is chair of our audit and risk committee.

Tim W. Faithfull. Tim is a resident of Oxford, England and has been a director since 2003. He is a veteran of Royal Dutch/Shell and was formerly President and CEO of Shell Canada. Tim is the chair of our human resources committee.

Dawn L. Farrell. Dawn, our President and CEO, is a resident of Calgary and was appointed to the Board in January of last year. Prior to her appointment as Chief Executive Officer, Dawn was the Chief Operating Officer of the company and has 25 years of experience in the industry.

Alan J. Fohrer. Alan is a resident of Arcadia, California and a new nominee to the Board. Alan was Chairman and CEO of Southern California Edison Company, a subsidiary of Edison International, one of the largest electric utilities in the United States. He also served as Vice President and Treasurer and Chief Financial Officer of Edison prior to taking on the CEO role of Southern California Edison.

Kent Jespersen. Kent is a resident of Calgary and has been a director since 2004. He is chair and CEO of La Jolla Resources International Limited. He's also held senior executive positions with NOVA Corporation, Foothills Pipe Lines and Husky Oil. Kent is a member of the human resources committee.

Michael M. Kanovsky. Michael is a resident of Calgary and has been a director since 2004. A professional engineer and independent businessman, Michael has extensive business experience in the development of energy and electrical energy companies. Michael is chair of our governance and environment committee.

Gordon S. Lackenbauer, a resident of Calgary and has been the director since 2005. Gord was deputy chairman of BMO Nesbitt Burns and as a result has extensive capital markets and finance experience. He is the member of our human resources committee and the governance and environment committee.

Karen E. Maidment. Karen, a resident of Cambridge, Ontario has been a director since 2010. She was Chief Financial Officer and Chief Administrative Officer of the BMO Financial Group for nearly a decade. Karen has been a member of our audit and risk committee and governance and environment committee and will be assuming the role of chair of the audit committee after this meeting.

Yakout Mansour. Yakout, a resident of El Dorado Hills, California, a director since 2011. Yakout is a professional engineer and recently retired from his position as President and CEO of the California Independent System Operator Corporation. Prior to that, he held several executive positions in the electric industry. Yakout is a member of our audit committee.

Dr. Martha C. Piper. Martha, a resident of Vancouver, has been a director since 2006. Prior to joining the Board, she was President and Vice Chancellor of the University of British Columbia and prior to that Vice President at the University of Alberta. Martha is a member of the governance and environment committee and the human resources committee.

Myself. I'm Gordon Giffin. I'm a resident of Atlanta, Georgia and I have been a director since 2002. I'm a lawyer and have practiced energy law for roughly 30 years, other than the four years that I served as U.S. ambassador to Canada in Ottawa. I currently am chairman of the board.

That is the slate of directors that have been presented to you in our proxy materials. I would like -- I would now like to open the meeting for nominations of directors to serve for the following year.

### **Todd Stack**

My name is Todd Stack. I am a shareholder and I nominate William D. Anderson, Timothy W. Faithful, Dawn L. Farrell, Alan J. Fohrer, C. Kent Jespersen, Michael M. Kanovsky, Gordon S. Lackenbauer, Karen E. Maidment, Yakout Mansour, Dr. Martha C. Piper and Ambassador Gordon D. Giffin to be elected as directors of the corporation to hold office until the next annual meeting of the shareholders or until their successors are elected or appointed.

**Gordon Giffin**

Thank you very much, Todd. Are there any additional nominations?

Hearing none, I request the motion of the nominations be closed.

**Mark MacKay**

My name is Mark MacKay. I'm a shareholder and I so move.

**Don Wharton**

My name is Don Wharton. I'm a shareholder and I second the motion.

**Gordon Giffin**

Thank you, Mark and Don. Told you this would be efficient. All in favor of the motion, please signify by raising their hands. Contrary?

Thank you very much. I declare the nomination closed. Since the number of nominations does not exceed the number of directors to be elected by the shareholders, I request the motion that the nominees be elected as directors of the corporation to hold office until the next annual meeting of shareholders or until their successors are elected or appointed.

**Brent Ward**

My name is Brent Ward. I'm a shareholder. And I so move.

**David Koch**

My name is David Koch. I'm a shareholder and I second the motion.

**Gordon Giffin**

Thank you, Brent and David. All in favor of the motion, please signify by raising your hands. Contrary, I declare that the motion is carried.

The next item of formal business is the appointment of auditors. I request a motion that Ernst & Young LLP be appointed as the auditors of the corporation to hold office until the close of the next annual meeting of shareholders at such remuneration as -- shall be fixed by the Board of Directors.

**Martin Ridge**

My name is Martin Ridge. I'm a shareholder, and I so move.

**Deanne Stene**

My name is Deanne Stene. I'm a shareholder and I second the motion.

**Gordon Giffin**

Thank you, Martin and Deanne. Okay. All in favor of the motion, please signify by raising your hand. Contrary, I declare that motion carried. Thank you.

The next item of business is consideration of a resolution continuing, ratifying and confirming and approving the company shareholder rights plan dated October 13, 1992 and last approved by shareholders at the corporation's annual and special meeting of shareholders on April 29, 2010. The shareholder rights plan was effective for a three-year term and is on the agenda today for an additional three-year extension.

The resolution continuing, ratifying and approving the TransAlta shareholder rights plan is on page 26 of the management proxy circular. I would appreciate a motion in connection with the resolution to continue the shareholder rights plan

**Brenda Marshall**

My name is Brenda Marshall. I'm a shareholder. And I move that the resolution to continue, ratify, confirm and approve the shareholder's rights plan as adopted by the Board of Directors, the full text of which resolution is set out on page 26 of the management Proxy Circular dated March 5, 2013 be approved.

**David Koch**

My name is David Koch. I'm a shareholder and I second the motion.

**Gordon Giffin**

Thank you, Brenda and David. As the proxies voted against this resolution to represent more than 5% of the shares voted and represented at this meeting today. The vote on continuing, ratify, confirming and approving the shareholder rights plan will be conducted by ballot.

Ms. St.-Laurent, would you please describe the ballot procedure.

**Maryse St.-Laurent**

Certainly. If you've already voted your shares, they've already been recorded. So it's not necessary for you to vote again unless you want to change your vote. Also for registered shareholders and proxy holders who registered with the scrutineers this morning, you were granted a ballot. If you have handed in that ballot already, your vote will be recorded and if you have not voted your ballot, or you need a ballot in order to vote your shares, please put your hand in the air and the scrutineers will come down and hand you a ballot.

When you've completed your ballot, you can put your hand again up in the air and the scrutineers will pick up your ballot. We ask that you sign the ballot and please print your name underneath and indicate with an X, whether you're voting for or against the motion. And this particular one is on a yellow ballot.

**Gordon Giffin**

Anyone need a ballot? Anyone else have a ballot that hasn't been retrieved? Okay. While the scrutineers complete the results of that ballot, we will move to the next agenda item.

The next item of business is consideration and approval on an advisory basis of an ordinary resolution, approving TransAlta's approach to executive compensation. The text of the resolution is specifically set out on Page 30 of our management proxy circular.

Since your vote is advisory, the results are not binding on the Board of Directors. However, the Board and the Human Resources Committee will certainly consider the outcome of the vote as part of its ongoing review of executive compensation. The results of the shareholder advisory vote will be included in the company's report on voting results, which is filed with the securities regulators.

I request the motion that the resolution to accept the company's approach to executive compensation, as specifically set out in the March 9, 2012 -- March 9, 2013 management proxy circular of TransAlta, be approved on an advisory basis.

**Todd Stack**

My name is Todd Stack. I'm a shareholder, and I so move.

**Don Wharton**

My name is Don Wharton. I'm a shareholder and I second the motion.

**Gordon Giffin**

Thank you, Todd and Don. We will also conduct this vote by ballot, so I will ask, Ms. St.-Laurent to explain this process once again.

**Maryse St.-Laurent**

Thank you. The process is the same as you did for the yellow ballot. So if you've already voted your shares either as a shareholder or a proxy holder, your vote has been recorded. If you registered today when you came to the meeting and you completed the ballot at that time, your vote was again recorded.

However, if you still hold the pink ballot and or you need a pink ballot, please raise your hand and you can vote your ballot at this time. We ask again that you indicate your vote for or against

the motion and you sign it and print your name under the ballot. And if anybody needs a ballot, if you please raise your hand, the scrutineers are in the aisle. Thank you.

### **Gordon Giffin**

We will just pause for a minute, while the scrutineers are tabulating ballots for those two resolutions.

Okay. On the first vote for the shareholder rights plan, the votes cast by proxy and in person are at least 84% in favor of that resolution, which I declare carried. On the second vote on advising the Board on management's approach and the Board's approach to executive compensation, the votes by proxy and in person are at least 92% in favor.

So, I declare that carried as well. And the final report on attendance indicates that 1,372 common shareholders are present in person or by proxy, representing 95,862,820 common shares accordingly. Just over 37% of the outstanding shares are represented at this meeting.

With that, we have concluded the formal part of the meeting. And with your consent, I will declare the formal business of the meeting to be concluded. And at this point before I turn the podium over to Dawn Farrell, I'll make a few remarks if you don't mind on behalf of the Board of Directors.

So, I'm honored to be here with you today, our shareholders for our 2013 Annual Meeting. We meet here today after an extraordinarily busy 12 months for your company in which our Board has worked closely with senior management to collaborate in steering the company through some challenging and changing market conditions. We are pleased with the progress that we're making to respond to these conditions and importantly to position the company for success in the future.

TransAlta's Board has the responsibility and privilege of directing an established and successful company with an extremely proud 100-year history in this province. Throughout the decades, TransAlta has transformed itself from a small Alberta hydro company into a power generator that is diversified both geographically and operationally. This transformation over the decades has required strong leadership, unwavering commitment and above all a clear vision.

Throughout this history, as you would expect, there have been some great years and some not so great years. All companies weather storms and we are no different. But through the decades, TransAlta leadership has taken a long-term view of the company's strategy and has maintained that course.

Many of the strengths that we possess today as a company are a direct result of this commitment and vision. As a consequence, TransAlta today operates in diverse markets with diverse assets, a platform that is well-suited for the future. Now, it's no secret that over the past several years we have witnessed global financial turmoil and substantial technological developments.

Our company has obviously not been immune to these developments. When we met last year, I told you that we confronted market and regulatory changes and challenges and that was true. One of the key challenges that we faced has been lower pricing in the Pacific Northwest.

Our CEO, Dawn Farrell and the Executive Team she has assembled, set out to work in 2012 to replace the revenue loss at our Centralia facility in Washington State due to this lower pricing. And they have made real progress in that undertaking. Dawn will describe that in more detail in a minute.

Similarly, demand for power suffered as a result of the sluggish economy that we've experienced throughout North America in the last three years. As we see that North American economy returned to a path of modest but hopefully sustained growth. We believe that many of the headwinds that our businesses faced in recent years are now behind us but not all of them.

Technology advances have increased the supply of natural gas across the continent in a degree anticipated just three years ago. The resulting lower gas prices will continue to pressure electricity pricing for the foreseeable future, and will continue to be one of the central challenges for generators like ourselves. Recognizing that challenge, we are facing it by adjusting our cost structure and fuel sources to remain competitive. Our current fleet is operating efficiently and TransAlta is dedicated to continue to drive efficiency and innovation.

Our diverse earnings base provides a natural cushion from recent challenging conditions we faced. Although, we have seen that lower pricing in the Pacific Northwest, we have capacity in other markets. And to mitigate regulatory changes that affect our carbon-based fuel sources, a growing portion of our fleet is now comprised of renewables. This scale and diversification of our fleet is representative of the long-term strategy I referred to earlier.

Now, as you all know, despite these plans and the progress, the market view of the diverse factors affecting our business led to a drop in our stock value over the course of 2012. This is not a result that we take lightly, nor do we believe it to be an accurate evaluation of the underlying value of the company. I can assure you that we are resolute in our determination to execute a strategy that reverses that trend. The initiatives pursued by TransAlta management in 2012, we believe will begin to demonstrate that fundamental value.

Just a few examples. Top-tier operating practices must be at the core of our company at all times. In 2012, our operating practices were tested through two arbitrations under our coal PPA's in Alberta. In each case, the arbitrators concluded that our operations equaled or exceeded industry standards.

In 2012, we added capacity to our existing successful business in Australia. We added to our wind fleet in Québec and entered into an innovative arrangement with MidAmerican Energy Holdings, one of the leading U.S. energy developers. Focused on growth initiatives related to natural gas-fired power generation in Canada. Diversity of markets and fuel source, a critical component of our plan.

And in 2012, we invested in our coal fleet in Alberta to ensure that these assets will continue to contribute important cash flow to the business going forward. This historic base of our business will remain a pillar of the company for sometime to come, as long as the regulatory regime is reasonable. So, 2012 was dedicated to improving the basic business by responding to the new dynamics in the marketplace, and to laying a strategic foundation for future success. The market may not have recognized all this yet but we believe they will.

Well, we can't have an Annual Meeting without mentioning the dividend. Some wonder if the pressures I mentioned affect our view of the dividend. Each quarter, the Board reviews the dividend, taking into account multiple current and prospective metrics, particularly cash from operations. That cash of course must be adequate at the least to pay our bills, cover sustaining capital and support the dividend. To date, our assessment of these metrics supports the current dividend.

We also recognized the total return to you, the shareholder, includes both the dividend and the share value. And we have both imperatives in mind. Let me also take a minute to talk you about compensation of our senior executives. Your Board of Directors has adopted a compensation system for senior management that is predicated upon pay-for-performance principles. That system is operating as intended.

In 2012, we saw a reduction in the equity value of the company. There were no payouts under our medium or long-term incentive plans as a consequence. Our short-term plan, however, allowed us to compensate management for the work they did in 2012 to address the challenges and lay the foundation for the future that I just described.

As chair, I want to assure you that the Board, is an active partner in management and charting this course for the future. Despite the challenge we are energized and we welcome the opportunity to develop and execute this 21st century plan for TransAlta.

We have confidence in the corporate strategy defined by our CEO and endorsed by the Board. We are committed to this strategy's key elements of driving operational efficiency, delivering responsible and diverse growth, leveraging our strategic advantages, following leading governance practices and continuing to deliver top quartile availability. I believe these principles will lead to enhanced value for you, our shareholders and I look forward to meeting with you to review this progress.

Now, I would like to turn the podium over to our CEO, Dawn Farrell and following Dawn's remarks we'll take your questions. Thank you.

### **Dawn Farrell**

Thank you, Ambassador Giffin. And welcome everyone to our 2013 annual meeting. Ambassador Giffin has outline some of the larger economic forces currently challenging our company and diversified companies have the agility to withstand some of these market conditions, and you'll see today that TransAlta diversification strategy is allowing us to meet the challenges we face and is helping us to build a stronger foundation for our future.

Today, after reviewing our financial results from 2012 and the first quarter of 2013, I'll talk to you about what we did last year to position the company for the future. Where we believe the company is now and where we see the opportunities.

By the end of my speech, you should be able to answer two questions. If the company's short-term financial position hasn't changed much between 2011 and 2012, why has its stock price declined? And number two, does this team have the company positioned to grow value from where we are today?

Now before I get started, I'd like to have my management team standup so that I can each -- introduce each of them to you. They are Paul Taylor; Brett Gellner; Cynthia Johnston; Dawn de Lima; Rob Schaefer; John Kousinioris; Ken Stickland; Bob Emmott; and Hugo Shaw.

As you all know companies are only successful when they have hardworking and devoted management. This group is very talented and fully committed to the success of your company, and I'm very fortunate to have all of them by my side.

So let me now start with our 2012 results. Operationally, we had an excellent year, we reached top quartile performance in our availability at 90%. We decreased our M&A expenses and we grew the company. And we did all of that while delivering first decile safety performance.

Our 2012 financial performance was not much different than it was in 2011 with comparable earnings before interest, taxes, depreciation and amortization or known as EBITDA coming in at \$1.014 billion, a decline of about 3% from 2011.

From -- our comparable funds from operations, a great measure of cash came in at \$776 million, a decline of about 4%. Our earnings per share did fall in 2012 from \$1.04 to \$0.50 a share, due to weaker performance from our Energy Trading group and lower prices in the Pacific Northwest and I will talk about that.

Now while we recognized that net earnings are an important financial metric, we do believe at this time at TransAlta, they are a less effective metric for measuring success, because the depreciation of some of our assets on a straight-line basis does not align with the cash flow profile of those assets, especially the cash profile in the Alberta PPA assets.

Furthermore, net income can be materially impacted by mark-to-market changes and our hedges. So as a result, we are more focused today on cash flow type metrics such as EBITDA and FFO.

So, now, I would like to assure you and you can remain rest assured that we as a management team are not at all satisfied with our financial performance in either 2011 or 2012. Our job as a team is to generate cash and earnings from both the assets we hold today and the incremental assets that we add to the portfolio as we grow.

You'll see through my comments today that growth in cash from the existing assets will come when prices are improved, particularly in the Pacific Northwest markets but also in Alberta.

You will also see that our ability to manage arbitrations on our PPA assets is critical to the stability and cash in our Alberta coal plants. You will hear me say, arbitration has replaced regulation for those assets and hopefully, by the end of what I -- my speech today you will understand what I mean by that.

And you will understand how this team will grow the company by finding new assets to invest in that when added to our portfolio will strengthen the company's overall performance. So let me now turn for a minute to Q1. We will hold our Q1 investor call immediately following this meeting, so let me just make only a few comments here on the first quarter.

Again fleet availability for the quarter was strong coming in at 91.5% above our yearly target of 89% to 90%. We delivered comparable FFO of \$192 million in line with last year's results and comparable EBITDA of \$267 million, which has improved slightly over 2011's \$252 million.

Our new Richmond windfarm came online in Q1. Our Energy Trading group achieved its target, production at Centralia was up over last year and as a management team, we remained steadfast in our determination to run the business more efficiently.

It is worth noting that Q1 also illustrated that our strategy of owning and operating a diversified fleet is paying off. Slightly weaker performance from our coal fleet was offset by better performance in our gas and renewable businesses, which today represent about half of our overall growth -- gross margin as you can see on this chart.

Our investors used to think that they were mostly investing in coal and gas-fired generation, today you own a fully diversified company that includes Canada's largest fleet of renewable generation assets.

So let me turn now to my first question. If the financial condition of the company is much the same in 2012 that it was in 2011, why is your company worth about 28% less than it was a year ago when you sat in this room?

Now no one ever knows all that goes into the market value of our company at any particular point in time, but I'll do my best to help you think about how to answer that question.

First, let's look at what we offer our shareholders, when you hold a share of TransAlta, you own a company with a highly contracted portfolio of diversified generation assets. In fact, going into 2013, we're 89% contracted and going out over four years we are 75% contracted.

You own a significant renewables portfolio that includes Canada's largest wind fleet. This is 18 - - we are 18% of Canada's wind capacity with our next closest competitor having only 8%.

You own assets in some of the fastest growing markets in the world. You have a strong operating team. We have a solid track record of adding growth and you'll see that today and you do have some Merchant megawatts in Alberta and the Pacific Northwest.

Now the Merchant megawatts mean that when prices are strong we can capture more cash and when prices are weak we capture less. But if our cost structure is aligned with lower prices, we remain profitable even when prices are low and that's what's behind our steadfast determination to reduce costs and become more efficient at what we do, and we've achieved a lot of this in most of our core markets and we are proud to say that we see ourselves as being very strongly positioned for the low end of the price cycle.

Now, as we entered 2012, we faced two main pressures in our company, falling prices in the Pacific Northwest and the hangover on the Sundance 1 and 2 generator arbitration. So let me take these on one at a time, because I think these factors are both significant in the market evaluation of your equity.

As we were coming into 2012, we knew that prices in the Pacific Northwest were falling. Centralia has always been a Merchant plant and has been limited under -- had been limited under Washington State Regulation to five-year contracts.

The chart up on the screen shows that prices in that market have declined significantly from 2008. Three years of above normal water in that market which relates to the hydro capacity in that market, a much slower economy and significant declines in natural gas prices have reduced power prices there to lows that we haven't seen for 20 years, in the range of \$30 a megawatt hour.

As a result, we lost significant ground from when power prices were around the \$60 mark and when we had a large percentage of Centralia's operation hedged in that range. In 2011, we did negotiate an arrangement with the state that ensured the plant wouldn't have to close down prematurely and as part of that arrangement, we are no longer restricted to five-year contracts.

We recently closed an important contract with Puget Sound Energy to the end of 2025 for about 330 megawatts or one quarter of the plant's current capacity, and we expect this contract to be finalized with the regulator by the end of June.

We still have hedges from prior periods that protect the portion of those cash flows between now and when the Puget contract starts. However, despite the contract we signed with Puget, we knew that as we were going into 2013, we would see about 120 gap in cash opening up from that operation.

I'm pleased to say that today your management team through the efforts that they made in 2012 has been able to close about 97% of that gap and we are continuing to drive for more. So you are probably asking how did we do that?

Well, first, we had to get busy and restructure Centralia to make it more competitive in that low price market. We took a hard look at the plant. We improved its cost structure. We renegotiated every contract that we would think of. We changed the capital plans, unfortunately we had to reduce staff. We renegotiated the rail contracts and we renegotiated the coal impact, sorry, the coal cost. Keeping our cost structure competitive allowed us to generate positive cash flow and capture upside as markets strengthen and I'll show you that in a minute.

The second thing we did in 2012 is we reorganized the company to make it more efficient. We set out achieve corporate cost reductions of 5% and we delivered 10%.

The third thing we did is we added growth. We added over 225 megawatts of additional generation to our fleet, most of this in gas and wind, further diversifying your company. We won the bid to own and operate the Solomon gas plant in Australia and this plant is great investment for you. It adds about \$40 million in EBITDA per year and it provides a reliable return. We also added our highly contracted New Richmond wind farm to the fleet and invested in operations at our Alberta coal facilities.

Fourth, we completed a three-year reinvestment program in our Alberta coal fleet. The payout from this investment actually started to happen in 2012, when we had an overall fleet availability of 90% and we did this while maintaining top decile safety.

Fifth, we did increase our hedge targets last year to reduce volatility in our earnings base. In recent months, our marketing team has done a terrific job of attracting new customers to your company. In 2012, they signed 115 megawatts of new industrial and commercial contracts in Alberta and they renewed 85% of expiring contracts across our fleet. These contracts get us to about 500 megawatts of direct customers, a goal that we accomplished two years ahead of time.

And in 2012 -- now in 2012 we did have an unexpected poor performance from our trading team, when they delivered \$3 million in gross margin versus \$40 million to \$60 million. Unfortunately that became our sixth thing that we had to get done in 2012 which was return them to their historical contribution, which we are glad to report they have done and they showed that in the fourth quarter of last year and the first quarter of this year. So getting our trading group back on track was the sixth major thing we had to do, unexpected but we got that done too.

So when you take all that together, our work has allowed us to almost completely replace Centralia cash shortfall. This is a positive position as we go into the future. However, it could be that the market continues to see much less cash coming from Centralia and likely you see this as challenging some of our ability to pay our dividend as Ambassador Giffin pointed out to you. So we believe that this potentially could be impacting the value of your stock.

The other issues facing our company going into 2012 were questions on the Sun A arbitration and in overhanging concern that we may have lost our edge as strong and reliable operator of large midlife coal plants here in Alberta.

As we enter 2012, we were facing two arbitrations on our coal plants and I'm pleased to say that we won both, precisely because of our strong operating practices. They were validated to those operate -- to those arbitrations and that is important as you think about the company as we go forward.

Under the terms of the PPA's on our coal plants, if an equipment failure beyond our reasonable control creates an outage as longer than 42 days we can claim force majeure, in such circumstances we can continue to receive capacity payments and relief from having to pay penalties to the buyer.

Now, when our coal plants were first regulated, if there was an issue on boiler or a generator we would take these issues to the regulator and seek cost recovery. Today, under the PPA's here in Alberta for our coal plants, we are often required to prove that our operating practices are sound and that we have justified claim for force majeure to an arbitration process instead of a regulatory process.

So this is what I mean, when I say, that regulation on the coal plants has been replaced by arbitration. So until those PPA's roll off starting in 2018. If there are equipment issues in our fleet, you will see the TransAlta team resorting to the arbitration process on your behalf to legitimately protect our interests under PPA's. This is nothing out of the ordinary. This is just how the system is designed today and with the middle-aged fleet this might happen from time to time.

Now, last year was a little bit different because while we won the arbitration on Sundance we lost our destruction case and were ordered to bring the plants back online. The arbitration panel did not agree with TransAlta's assessment that Sundance units 1 and 2 should be economically destroyed.

As a result, we are now investing \$190 million to rebuild the boilers in both units. I can tell you that, we don't believe that the decision fits with the spirit of legislation governing the PPA's to ensure shareholders receive a reasonable rate of return and it was definitely not the result we wanted or the result that we expected.

But I can also tell you, that under the -- that the Canadian federal government has now introduced greenhouse gas regulations that will allow us to run Sundance plant longer -- the two units longer than we first expected.

So these units will make a return for you by the time they close down at the end of 2019. We will be able to collect additional cash on those units in 2018 and 2019 as they rollout for PPA's.

Now, these new regulations that were finalized in September of last year allow us to run our Canadian coal fleet on average 48.5 years up from the initial 45-year rule and shorted the 60 years which is we -- what we believe the lifetime of these plants are.

By agreeing to reduce the life of the plants we avoid additional cost for CO2 recovery into plants of 48.5 years old. This creates certainty on the environmental cost for greenhouse gases on our coal plants. We still have additional work to do to allowing other standards to this regulation, but there is significantly less uncertainty on environmental cost going forward on the coal plants here in Alberta than there was a year ago.

So lot's of activity at TransAlta in 2012 and we did everything that we could to preserve value in the company. As I stand here today in 2013, I can tell you that we have largely overcome the shortfall in cash from Centralia and that our diligent focus on our operating practices will protect us under our PPA's as we move forward with our coal fleet.

We have this plant setup to deliver significant value well into the future and we will use our force majeure rights when necessary under the PPA's to protect you and your investment in the years to come.

So now after answering the first question I'd like to -- turn to ask -- answering my second question. Does our team have the company position to grow further from here? As we come into 2013, we're focused on both liberating value and adding value, and what do I mean by that? I mean there is already a lot of value in the company and we just have to bring it out and there is also a lot of ways to add value.

Well, our regulated Alberta coal plants continue to generate reliable cash flow here in the short and the medium-term, the largest long-term value in the company consist of the post PPA value in this same plants.

Today, we received PPA contract pricing in the range of \$30 to \$35. In 2021, we expect to capture significant value against market prices that could be well above \$50 to \$60 and today they are higher than that.

This will significantly increase margins on over 3,000 megawatts of production and provide long-term value to our shareholders. The chart on the screen shows that by 2021 another \$400 million to \$800 million in cash could be realized in the company depending on what prices are doing.

Now this value will only appeal to our long-term investors. The short-term nature of the market does not currently value this cash and probably won't until we get closer to the end of this decade.

Value will also return to the company as prices improve in the Pacific Northwest market. The chart on the screen shows that incremental revenue could come to the company if prices recover from their current levels and we are seeing some evident -- evidence of that as we go into this year.

I want you to remember that our large renewable fleet is also valuable. As I showed earlier, we are now well-diversified with our gas and renewable fleets, accounting for about half of our gross margin.

Today, renewables companies our trading for 12 times their EBITDA or 12 times their cash. TransAlta trades for eight and half times, your management team recognizes this value and we are under -- we are reviewing a number of strategies to see if we can unlock it on your behalf.

And while we see significant future upside in our current fleet, we see much of the companies future value is coming from growth. So this is a major focus for our team this year and in the medium-term.

Our company today has an impressive record of growth. We've added over 18,000 megawatts since 2005. Our operations are located in some of the fastest growing markets and the most stable economics in the world, including Alberta, B.C. and Western Australia.

We will leverage our scale, our balance sheet, access to capital, relationships, knowledge of markets and experience with different technologies to ensure that we can act on only the best opportunities.

Our greenfield investments, we are focused on Australian miners, who need power plants if they are going to sell iron ore to China and that was our Solomon investment last year and there is more to do in Western Australia.

We are focused on Alberta oilsands where we see more than 5,200 megawatts of opportunity. We are also focused on B.C.'s burgeoning LNG industry where we see about 1000 megawatts of opportunity. And of course, we are still focused on contracting and commissioning Sun 7 which is now part of our Canada relationship.

We also continue to compete in the acquisition space where we see more than 11,000 megawatts of opportunity, most of it in the renewable both space where we believe we have a competitor advantage. We will continue to remain disciplined as we search for acquisition opportunities, seeking to add value and refusing to over pay for assets. We know that it's your investment and we are -- that we're protecting and we believe that the right set of assets will come along.

As you can see on the chart behind me, we think there is almost 18,000 megawatts or a total of \$36 billion, of potential investment opportunities in the core markets that we serve. We're not suggesting we'll get all of it, it'd be nice, but we're not. But we believe we are well positioned to capture a good share of it relative to our company.

So how would we find these projects where we have access to many sources of capital including internally generated cash, our public and private partnerships, asset monetizations, equity, preferred shares and debt. So overall, we're confident that we have the ability to attend a number of projects that will provide returns and synergies that we want.

One of our most important new partnerships is with MidAmerican Energy Holdings; Canada Power which is focused on new gas fuel power generation, will help ensure that our targets for growth in Canada can be met. This partnership enables us to be more aggressive about the size in number of gas-fired plants we develop, by increasing our access to capital and decreasing risk.

So now you've heard what our leadership team was facing as we entered 2012. You've heard what we did to preserve value over the past 15 months and what we're going to do to expose value that we believe is still in the company and what we're going to do to grow the company even further.

So by my remarks today, you should see that we have a strong diversification strategy which is working. And we continue to grow, as we continue to grow our gas-fired and renewable

businesses. We're committed to driving operational efficiency and excellence. We will continue to hedge our merchant assets to stabilized cash and reduce the volatility of the earnings.

We will grow while we have a competitive advantage in Australia, in Alberta and in the Pacific Northwest. We have the access to capital to do this and we believe in the partnerships we forged. We will protect your investment in the Alberta coal fleet by continuing to operate reliably and efficiently. And we will further grow our customer base here in Alberta.

And finally, we will position ourselves to receive the significant additional value created as the PPA's roll off later in the decade. These are the things we're focused on and they're why I'm confident that we have the ability to drive forward. I believe, we have the leadership, the people, the relationships, the technical expertise, the assets and the financial strength to be successful. With your continued support, we are confident that we can continue to create value on your behalf.

One of my favorite quotes is, "if there is no wind, row". I'm going to actually change that to, "if there is no wind, row harder and harder". This is essentially what we've been doing in the past 15 months. Although we face some strong headwinds we manage to stay on the course through sheer determination, a solid business model, and a great team.

We are driving for results on your behalf. Now, before I can conclude, I would like to thank our Chair, Ambassador Gordon Giffin, and the entire board of TransAlta, for your advice, counsel, hard work, and confidence in our leadership team over the past year.

I'd also like to thank our employees for their tremendous efforts and commitment to our company, and particularly to my team for all that they do everyday. And finally, I would like to thank all of you, our shareholders, for continuing to demonstrate your confidence in us.