



# Investor Day 2009.

Our plan for lower carbon sustainable value creation

**Transcript**

# Steve Snyder.

## MR. SNYDER:

Okay. Well, good morning, everyone, and welcome. Welcome to TransAlta's 2009 Investor Day. We appreciate your interests in joining us today.

We are also joined by webcast by quite a few people. We thank them for joining us, and I would also say that the presentations today, for those who aren't here but are on the webcast, are available on our website, so you can access them there.

We are going to cover a lot of ground today, but our agenda is quite focused, and we are going to try very hard to be productive with the words.

I do need, to start with our obligatory forward looking statement disclaimer, so I will put that up and allow you 30 seconds to read that, and I thank you for doing that protocol. And for those on the website, I hope they will take a chance to read it.

So let me just highlight our agenda for today. Of course, let me introduce myself, just to be sure for those who don't know me, Steve Snyder, President and CEO of TransAlta. And I'm going to start today providing some highlights on our strategy, as well as a broader outlook on the markets. Dawn Farrell, our Chief Operating Officer, will then come up and will speak to operations and to market specifics.

Then we're going to take a brief break to allow people to refresh their coffees and chill out a bit, then Dawn will come back after the break to discuss our growth profile, by market and by fuel resource, and then Brian Burden, our Chief Financial Officer, will then pull it all together in terms of our financial outlook, both from a balance sheet perspective, as well as from operations.

And we'll then go into our question and answer period, so I'd ask that we reserve all questions until we do the Q & A period, so please make note of them, and we'll try to address all of them at the end of the presentations.

Dawn and I and Brian will be joined by another two colleagues who are joining us today, Mike Williams, who heads up our communications and human resource group; and Ken Stickland, who heads up our environmental, health and safety, and legal group, and they will join us at the front to respond to questions.

Our goal here is to hopefully have completed the day, including all your questions answered, before noon hour and allow you to get back and finish what you have to do today.

I would also at this point just like to thank Jennifer Pierce and her investor relations team, not only for organizing today, but also for the tremendous effort they've put in throughout the year to hopefully keep you well informed on the company and what we're doing. And certainly all of the feedback I get is that she and her team are doing a great job, and we appreciate that. We do want to keep all of our investors well informed.

I'd like to start today maybe by summarizing what I believe the key messages that you will hopefully take away with you today. The first one is that we have made substantial progress to improve our operations in the specific areas that required action,

and Dawn will cover all of this in detail in her presentation.

Second, that our fuel and geographic diversity approach, which was initiated nearly a decade ago, is proving to be the competitive edge and success driver that we felt it could be. And we now have excellent alternate growth options beyond coal and natural gas, and still we've preserved the long term optionality and potential for those fuels at the same time.

We certainly have cross Canada strength in wind and hydro, and we have southern and US strength in geothermal and potentially even in solar.

Third, in prior presentations with you, we discussed key strategies we need to execute on. All have been advanced in 2009, and this progress will be discussed with you during our presentations today.

Fourth, overall the corporation is in very strong shape. In past meetings we committed to you that the company could withstand the strongest shocks and still sustain its dividend, maintain its credit rating, and continue to execute on our strategy.

That was clearly demonstrated in 2009, and no doubt we had the worst financial markets in perhaps 50 years, the worst industry conditions in maybe 25, and of course we had to deal with some unusual operational challenges internally.

Fifth, we have made great strides to reposition our coal assets and to green our fleet to deal with the new and challenging market realities of carbon constraints.

Now, there do remain a lot of carbon uncertainties in the markets, but what we've done is build and develop a plan with lots of optionality and with a series of investment off ramps that will give us excellent flexibility as we go forward beyond both 2010 and 2020.

And finally, we continue to sustain and execute on our core shareholder value proposition, which has been in place for many years now.

Now, our dividend continues to be supported with good cash flow, even in the tough times like 2009. Our risk profile is not increasing as we successfully deal with carbon. Our renewable investment should support a good multiple and deliver excellent shareholder return over the years. And overall, our actions in 2009 and that will be discussed with you today have all enhanced, I believe, each of these value propositions for our shareholders.

So with that, let me start off by recapping our strategy that you've been seeing for a number of years now. It does remain very focused, and it does deliver on our value proposition, and let me just highlight from 2009 how we executed on that.

First, we certainly sustained the key drivers. Those key drivers are fuel, geographic, and contracting diversity, and of course a steady approach to capital allocation. And we also made key progress on some key fronts: One, we had superb renewable growth, and all of our projects achieved our hurdle targets,

have good contracts, and reduced the average age of our fleet. I think simply put, when it comes to renewables for TransAlta, these are good businesses, and they are not good deeds.

We are well on our way to restoring sustained and predictable coal fleet operations. We deepened an already strong development pipeline for low carbon growth, and we continued the environmental leadership that is the hallmark of TransAlta and increasingly a competitive edge in a carbon constrained world.

Now let's turn to our industry landscape for a minute and frame some of today's discussion. I think it's clear that our industry is facing more issues than it has in its history, and the single biggest one in front of us is uncertainty. And that's driven by the emerging carbon regulations, which are unclear, and emerging technologies, which are also unclear.

So our approach at TransAlta is to create as much optionality and flexibility in our plans as economically possible, and we are doing just that, and we're not going to be caught with our heads in the sand on these issues.

Now, let's just step back to two perspectives they're slightly different one is the Canadian perspective, and here we see that the regulatory trends are heading toward what I would call a defined life span for coal assets. In other words, a date will be set by which these units have to reach certain targets using CO2 technologies.

However, I would say the time frames that are currently being discussed on the policy framework will work for TransAlta in terms of cost, cash flow, and particularly in terms of timing of key capital stock turnover decisions. And additionally, our Alberta sites will retain their optionality, not only for a potential future coal resurgence or any alternate use.

Now, from a US perspective, the trend now is they might be a bit more supportive of coal in their long term planning, but in our particular case, we need to be and are being very proactive, particularly in Washington state.

Now, our Centralia plant is already one of the cleanest coal plants in the US, but we are working very aggressively and closely with the Department of Ecology in Washington state and this is under a governor's directive to define a process with the goal to ensure that Centralia can meet combined cycle gas plant standards by 2025, and as we implement these plans, they should eliminate over time the carbon risk at Centralia.

So let's go from some of those macro landscape issues to some of the specific industry issues.

Now, we have consistently said that we're going to build our strategies to be successful in all the cycles, and I believe we are accomplishing that.

Now, let's just take a look at the next couple of cycles. For 2009 and 2010, it's an economic down cycle clearly for our industry, so we're focused on cost, we're focused on productivity, we're focused on availability, and of course trying

to acquire assets when valuations are in reduced mode.

As we go with the 2011 and 2012, we do see some market improvements, and the platform we're building now should translate into earnings leverage. And when we get beyond 2012, our low carbon growth impact kicks in and will continue to drive both earnings and valuations. And then I think if you want to look even further out to beyond 2020, clean fuel technology should allow for a fossil fuel resurgence.

Having said all that, no matter what the cycles, we do remain our strong focus on cash flow, on our credit rating, and of course a disciplined approach to capital allocation.

Now, against that landscape of external drivers and industry specific drivers, we have established three strategic imperatives, as I would call them. The first is to drive our base, and that simply means keeping our core platform strong, and Dawn will talk a lot about that today in her presentation.

Clearly we need to reposition coal, and we need to be out in front on the issue of carbon constraints and having options for all eventualities.

And finally we have to what I would call green our portfolio. That allows us to grow to meet carbon targets, reduce our fleet's average age, and to drive up our market valuation, obviously.

So let me just now shift to the progress we've made in 2009 on addressing the issues on the three imperatives. And when we look at how we need to improve our base platform, let me just say up front that with everything that was going on in 2009 both internally and externally, it could have been easy for us at TransAlta to take our eye off the ball and get distracted. We weren't, in my opinion. In fact, I think our team stayed extremely focused.

We were able to execute on multiple key objectives and at the same time hit some very aggressive cost targets.

So in terms of how we could drive the base in 2009, one key success was signing a long term contract for our Sarnia gas plant here in Ontario. That took 18 months of hard work, but at the end it's something that works for us and does work for Ontario.

We finalized our Centralia fuel transition program, and that will allow us to return to historical production rates and provide great cash flow for that facility in the coming years. I won't talk about the Alberta improvements; Dawn Farrell will talk about that.

And we were quite relentless during the year on cost, focus, and cost reductions. We did have to spend some of that savings on improving our thermal plants, but as we go into 2010, both the cost savings and the improvements in Alberta thermal will start to pay off for us.

We also made good progress on the imperative of repositioning coal, and that was everything from day to day maintenance to major maintenance scheduling, to Project Pioneer, to public policy. And these are pretty foundational efforts, not only for 2010, but also for 2020.

In addition, for all of the coal work we've done, which improves operational performance on a go forward basis, what it also provides us is with some lifecycle flexibility in terms of dealing with the environmental issues and carbon constraints that are facing us. So we've had a dual sort of success on this issue, reduced costs, better predictability, and more flexibility as we go forward in terms of how we invest in our coal facilities.

And of course, Project Pioneer was a significant breakthrough. The main benefit to TransAlta is we will be at the forefront of the leadership role and knowledge role of one of the technologies that are going to be needed to run coal plants beyond 2020, and this will give us early leadership, help us to make the proper investment decisions, and decide how much or not how much to support these emerging technologies.

And in terms of our third imperative, to green our portfolio, again, we executed well, I believe, across a diverse range of initiatives, anywhere from delivering wind projects on time and on budget to advancing new projects and of course to acquiring Canadian Hydro.

So certainly I would just want to say on Blue Trail, that project was not only completed on budget; it was completed ahead of schedule, and I was informed today that it will go COD today while we're here, and so that's an excellent project for us going forward.

I can tell you that Summerview and Ardenville are tracking to the same type of schedules that Blue Trail did, and so we have great confidence that they will also be on time, on budget, and hit all of our objectives.

And of course we are now just in the process of finalizing the Canadian Hydro acquisition. We're in the integration phase, and at this point all is going well, and it's certainly our hope and our plan that by year end, we will have fully integrated Canadian Hydro into TransAlta and be moving forward in 2010 aggressively to reap the benefits of that acquisition.

So what of all of that cumulative work I've just highlighted and that we'll talk to you more about this morning mean? Well, I would say cumulatively what they mean is our fleet today is obviously much stronger in renewables. It is getting younger, it's getting larger, and it's getting contracted longer. And as we sit here today, we are now nearly one quarter renewables and nearly one half non coal. That's quite a transition for TransAlta over the last ten year period.

And I think this chart, perhaps my last chart here, speaks the most to the progress we made in 2009. With a combination of our internal progress plus the acquisition of Canadian Hydro means that we are going to go into 2010 certainly with an improved cost profile, certainly a strong pan Canadian renewable operating base, a quite deep low carbon development portfolio is ahead of us. We have a substantially strengthened hydro team, and we certainly have excellent productivity opportunities. Plus, of course, we've got momentum on the low carbon strategies, and I think clear Canadian leadership now on renewables that will do us

well, not only in 2010, but certainly in the decade to come.

So that will give you an overview of where we are in terms of our strategy, how we advanced our strategy in 2009, which I think despite of all the externalities and the tough markets, we actually took advantage of that, used our balance sheet, used the discipline to move the company forward at a time when many others could not move forward as quickly. And at the same time, as Dawn will tell you, we're able to manage the internal issues so that we had and make great progress on them.

So from an operational perspective, I think the year is going to turn out to be superb. Financially in today's market conditions, not where we'd like to be but heading in the right direction as we go into 2010, with a lot of those base points behind us and we can build on in 2010.

So now let's get into the details of what I've talked about. I'm now going to ask Dawn Farrell, our Chief Operating Officer, to come forward, and she will go into our operations and discuss those with you, and then we'll take a break.

Dawn

# Dawn Farrell.

## MS. FARRELL:

Thanks, Steve. Good morning. It's a real pleasure to be here again this morning here in Toronto. I have lots to talk about today, and I was reflecting on it last night. In the age of BlackBerries and Twitter, I feel a little bit old fashioned up here in terms of all that I have to say in a one way dialogue, so please bear with me. Lots of content, lots of information, and at the end of the session today, we'll have lots of time for questions.

I'm going to start by talking about who the TransAlta operations group is. We were formed earlier this year, and we include all of the operational components inside of TransAlta and what it takes, really, to run the business. The coal plants, the gas plants, the wind plants all report into this group. The construction of those plants reports into this group.

We also have the trading operations, commercial operations, the development group, and then the support groups, including engineering, the chief engineer's office, procurement, and a technology group. So it's a big integrated team, and, really, we have all that we need to make a difference to how TransAlta operates and how we run.

As you know, TransAlta's fleet is very diverse in terms of fuel but also very diverse in terms of age. We have plants we were 100 years old on October 20th. That's when the company was formed, and two years later the first operating hydro facility up at Horseshoe was operating. So we have 98 year old hydro plants, and we have plants under construction, including wind and coal.

So that along with diverse fuels, today we have, as Steve pointed out, coal, gas, geothermal, hydro, wind, and now even a biomass plant. That range of age and technology means that we have to be pretty tight in terms of how we think about our operations. We not only have to look at each unit in our fleet individually, but we then have to tie all of those units together and integrate into a business plan that makes sense for the company as a whole.

To drive our fleet to high operational standards, we have to do it unit by unit, and you're going to hear me talk a lot about that today.

Now, this group that we have in operations has really been organized to recognize that diversity. We do make integrated decisions, but one of the most important things we do is we set unit by unit goals, and then we deliver on that performance. And really that's mostly what I want to talk to you about today.

Now, I have a number of topics. I am going to talk about pricing in the Pacific Northwest, in the Alberta markets. I'm not going to spend any time today on the Ontario market. The contract that we have now at Sarnia no longer requires us to communicate that.

But I'm not going to be talking about pricing because we have any particular view or we have any particular insight as to what the prices will be. Mostly I'm going to be talking about it because it really does set the context for how we're thinking about our cost structure, and Steve talked

about some of our cost targets this year. Really we've been using pricing to say to ourselves, What kind of cost structure do we need to run on a sustainable basis?

I'm going to also provide you with a view on how the entire fleet is performing. I'm going to take you into some excruciating detail today unit by unit, mostly because if I have to learn this, then you're going to have to listen to it. But hopefully after today, we won't have to do that again, but I think it'll give you a real good feel for what TransAlta's fleet looks like and where some of the issues are.

You're going to learn today that the majority of our fleet is running exceptionally well. We do have some specific issues in the Alberta coal fleet, but those issues are also very specific to a couple of units in the Alberta coal fleet, and that's what you're going to learn about today. Where we do continue to think that we have issues, I will outline what our plans are for those.

This year we've also undertaken significant work to benchmark our costs and our performance. This benchmarking is now influencing our goals, and I want to talk about it specifically, and then finally I'm going to talk about the work that our development team has been up to, what our growth plans look like, and what we see on the horizon there.

Now, even though market conditions are significantly different than what they were when we stood here a year ago, Steve has outlined that our strategic imperatives remain: Drive the base, repositioning coal, and greening our portfolio. These are still appropriate and will be appropriate for TransAlta for a long time and really do guide the way in which we organize the business internally.

I'm going to spend a lot of my time today on driving the base, because, as you all know, if we drive the base operations, we drive out cash. If we drive out cash, we can pay our dividends, and, as well, we can reinvest that cash in growth, or we can put it towards other capital needs of the organization.

Okay, driving the base. What does that mean to us? It really means squeezing the most value we can out of the assets we have, given the capability of those assets relative to their technology, their geography, the market they're in, and their condition, and their age.

The key messages that I'd like you to take away in terms of that are a number. First of all, we do believe that low prices are going to set the context for us here in the medium term, and we believe that in order to be competitive, we have to keep a cost structure that will survive those low prices no matter how long they stay.

So costs remain an imperative and a cornerstone to TransAlta's strategy. I've been with the company for 25 years. Costs have always been important to us, and low costs have been part of our values and our ethics, so that remains.

We believe that if we can keep our costs low during these down cycles, when there is an up cycle, shareholders will benefit because they'll get the value

out of the differential between price and costs.

I just want to take a moment to say that in 2009 we were not satisfied with our cost performance, so we undertook benchmarking studies that were much more extensive than anything we had done in the past. We've always benchmarked at TransAlta, but we really took a deep dive into it to see what was going on and to see what we needed to do. We were, through those exercises, and I'll talk about it as I go through the discussion today, able to identify areas where we could improve on our major maintenance costs, and I'll talk about our goals there.

We've also identified ways to lower our costs through the operations, and I think bringing that big team together under TransAlta operations has actually helped us find the places where we don't need to be spending money and then to redirect and focus to places where we do.

Most importantly, though, we found places where we can lower costs without impacting performance and quite the opposite. We found ways to lower costs and increase our performance, and you're going to hear a lot about that today.

I think our second key message is that our fleet is very strong. The majority of TransAlta's units perform at or above industry benchmarks. Those that don't today will get there and will be above industry benchmarks; they won't be at.

Our performance issues today and that we've had in the last 18 months have very much been specific to the Alberta coal units, and they've been even more specific to a couple units in our Sundance plant.

I believe that our people today in our operations group are well positioned to improve the financial performance of the Alberta coal plants, particularly Sundance. Our assessment of the issues there have been extensive. My own personal assessment of the issues there have been extensive, and our team is focused on how to improve the performance economically.

What you're going to see today is that as we drive forced outages down, we will be able to drive cash up and the performance up of the fleet.

A third thing that you're going to hear from us today, which will be quite a bit different than what I think you heard from us before, is that while we believe that 92 percent availability across the fleet is achievable, we no longer believe that it is economic.

We believe that it may be too costly to go for those extra 2 percent of availability, and we're now very much more aligned to setting our sights on a 90 percent availability target across the fleet.

What you're going to learn, though, is that 90 percent availability for our fleet actually provides more cash than if we try to drive to 92, and I'm going to talk about that today.

So our current unit by unit assessment leads us to believe that a road to 90 percent across the fleet will maximize value for our shareholders and does have the potential to lead to much more

predictable performance and lower overall cost for the business.

I am going to talk about our second strategic priority today, which is about repositioning coal. This priority is really about the medium and long term. The issue is, we have to make decisions as early as next year about this priority. So even though the impacts are seven to ten years out, decisions have to be made now.

This priority is focused on setting TransAlta up to have multiple options and flexibility around our lifecycle plans in our coal plants, and we really believe in today's environment, given the context on carbon, it's just as risky to invest too much in our assets as it is to invest too little.

Finally, I will be talking about greening of our portfolio. A key message here is simple: I believe that we not only have one of the strongest portfolios in Canada, but it's also very strategic to us.

By investing in low carbon generation in our markets, markets we're good at and in technologies that we're good at, we have created a competitive advantage for TransAlta, and that competitive advantage will be translated into growth and earnings for our shareholders.

The recent acquisition of Canadian Hydro puts us ahead of the plan that we presented and promised you last year. We do believe Steve talked about it earlier everything we're seeing is that we will have a successful integration there. But more importantly, the combination of the two development portfolios will allow us to be even more selective about our investment choices, our timing, and our fuel mix.

So let's get into the markets. I don't know how many of you remember, but it was a year ago about this time, I think it was maybe in October that we were presenting, and as we were presenting, we were in the usual space where everybody was getting bored and getting on their BlackBerries. But last year was even more interesting to us, because as we were standing here, we were saying to ourselves, they really don't like we're saying, because they're really on their BlackBerries a lot, and the market dropped a thousand points in the three hours that our panel was up on the stage, and you were all in shock, and we didn't know what was going on. So hopefully that's not happening while I speak today, and if it is, we just might as well stop, because, you know, you're not going to hear anything.

But as somebody pointed out to me, we were not the effect of that; it was correlation, not causation, so just so you know, we had nothing to do with that thousand point drop.

Now, that financial meltdown that started last October really hit the Pacific Northwest markets in terms of pricing as gas prices fell in reaction to the forecast of lower economic growth. We were quite lucky there. Our team foresaw that. We were in October, they had a strong feeling that, you know, gas prices were going to start to fall because of economic growth, and we actually got permission from our board to hedge out the rest of 2009 in that time frame.

So we were able to capture some really good prices, and you're going to see that on a chart that's following.

But nevertheless, by the time we got to the end of the season last year, we were seeing some real price pressure in the Pacific Northwest.

Alberta didn't follow suit until the spring. It really wasn't until the spring that spark spreads collapsed in Alberta in response to demand in supply conditions. So it has been clear to us, all of us in the industry, that over the last year, we really have seen a situation where demand has been driving prices down.

Now, past history suggests and I have a chart that I'll show you in a minute that when demand returns, prices readjust quickly, but one of the things you'll see from us is that we're not depending on that in our plans.

The chart that's just coming up here shows you the Alberta market. You'll see on this chart that, last October, Alberta prices were averaging \$90 dollars. Year to date, Alberta prices have averaged \$48 dollars, and even though we're seeing some higher prices coming into the winter here, we don't expect to finish with a very strong year.

Looking ahead, we do see that the recovery and the growth in Alberta will improve pricing. While the current forward curve has pricing back to \$65 dollars by 2014, it's still a far cry from what we were seeing last year when we were seeing \$90 dollar prices out that far.

The next chart shows the Pacific Northwest markets, and as you recall last year in 2008, we were seeing prices in the \$55 to \$60 dollar range. This year the Pacific Northwest market traded in the spot market in the \$30 dollar range.

The Pacific Northwest market, as you know, is much, much more correlated to gas, but also in that market reserve margins have increased dramatically due to demand destruction. So as a result, the forward curve in that market is trading much lower than what we were facing when we stood here last year.

Now, this is one of my favourite charts because, as you all know, every recession we go into, everybody believes that things are going to go down forever, and the reality is when it comes to electricity, that's just simply not true.

What this chart shows is that in the last three recessions there was one in 1975, in '82, and I think in '92 there those are the only three times that electricity demand has ever fallen in response to the economy. It fell for one year. The year following the recession it rebounded, and it always rebounded significantly more than was expected. You know, I've got 25 years in this business many of you also do I think the thing that is true about electricity demand, is it grows with GDP, and it grows with the population. So if GDP and population are growing, there are going to be more people using more electricity.

So we're not really predicting what will happen as a result of this recession; it is a much more dramatic recession than anything we've seen in 50 years. Maybe this will be the time where it falls

for two years in a row, I don't know, but I would say over the next ten years, it's unlikely you're going to see electricity demand fall.

Now, in our industry, what's more important, and the real wild card is gas prices. Currently the forward gas curve is falling in the \$5.75 to \$6.50 range, which gives us some confidence as we look out at prices in the Pacific Northwest for our Centralia plant. However, there's a lot of uncertainty around these gas prices.

You know, if you live in Calgary, you get to talk about gas prices a lot because there's lots of people around doing a lot of work on that. You can go to a dinner party in Calgary, and the table sits there, and they talk about shale gas and more gas than you've ever seen, and when you ask them about what that means in terms of price, they yammer and talk, and some of them talk \$5 dollars and some of them talk \$9 dollars, and as a non gas person, you sit there and say, There's a big difference between \$5 dollars and \$9 dollars. And so, to me, it's a great, great uncertainty for our industry.

I think the challenge is there is lots of inexpensive gas, but there's a lot of requirement for infrastructure to get that gas to markets, and a lot of what happens in gas depends on what happens in electricity, because if we don't use the gas to make electricity, there's a good chance you're not going to see \$9 dollar gas. So there's a lot of impacts there. All I can say is in terms of how we look at it, it really informs how we think about the next thing I'm going to talk about, which is our hedging strategy.

I talked about last year, and as you know from talking to Jennifer throughout the year, TransAlta implemented a hedging strategy to be able to bring stability to earnings in times like we're in today.

The strategy allows us to capture upside, but mostly it protects the downside. With our recent addition of the Canadian Hydro assets, we're now in a situation where we've gone from 65 percent contracted to 70 percent, so I think that helps significantly. As well, we've added a year of contract life on our portfolio, and Steve talked about that earlier. We've gone from 11 to 12 years.

We do continue to pursue our four year ladder contracting strategy despite, and I say despite the temptation by a number of people to stop hedging this year. Because when people saw these low prices, the first thing they wanted to do was climb out of the ladder strategy and hold off.

And we did a lot of analysis on that, and we looked at it very closely, and our analysis shows that if we look ahead, there's an equal probability that gas prices will go up, and there's an equal probability that they'll go down. So we're not going to abandon that strategy.

We do have the opportunity within that strategy to flex the amount of contracts that we sell, and we do take advantage of that, given our view on prices. So, for example, last year when prices were very high remember last June, it was June of '08, that we were seeing \$14 dollar a gigajoule gas, we contracted

to the maximum amount that we could within our limits.

This year, as we saw gas prices down in the \$2.50 range, we sold less contracts. So we do have the flexibility to do that, and we do undertake that as we go through our piece.

The one thing I can say is for sure when we entered 2009, all of the work that we had done on our contracting ladder strategy certainly was helpful as we went through the year.

Okay. So those are the markets.

I'd like to now turn to our operations. I'm going to provide you with an overall view of our fleet performance, and I'm going to address some of the issues that we still have outstanding there.

Now, this is a pretty extensive chart. What you can see in this chart, and really we should have given you longer data on this, because I think it would have been even more telling and we'll do that for next year but what you can see from this chart is that our overall fleet availability is fairly stable, but in the last 18 months, it has trended down, and it has trended down as a result of our Alberta coal.

Now, if you look first on the chart at the gas and renewables, we've had excellent availability in that area. We ran those units at around 94 to 95 percent. You see on the chart that the NERC has about a 92 percent availability for gas plants.

The reason our plants run at a higher availability and you all know this we have a lot of LM6000s in our fleet. They tend to run at a 97 percent availability, so when you average the LM6000s with our fray machines, we're higher on average.

We expect the fleet to continue to run at those averages, and we have a long history of that. We've got a good run rate. We've got great maintenance programs. We have no concerns about our gas fleet.

We haven't shown you the wind up there. We'll start to do that next year, especially now that we'll have about a thousand megawatts of that. I know from doing some quick analysis of our own wind sites and Canadian Hydro that we're in the 97 to 98 percent availability, very high performance on wind.

Availability is not as important in the hydro fleet, as you know. We just need to be able to run when the water's there, and we always have the capability to run when the water's there. So overall if you look, gas is good, wind is good, the geothermal, as well, are good. So let's now turn our attention to Centralia.

Centralia, as Steve talked about, we've been repositioning that plant to be able to burn PRB coal, no small feat. A lot of money has gone in to modify those boilers and get those boilers able to accept a hotter coal coming out of the PRB.

We successfully completed that work this year; both units are now done. And we've now sat back and said, what are the predictable amount of gigawatt hours that will come out of Centralia?

NERC would say that for plants of the age and the size of Centralia, that we should run in about an 85 percent

availability. That would give you about 10,250 gigawatt hours, and we're very confident that the plant will run at that range, might run a little bit better, but at this point, given that there's always a bit of break in that goes along with modifications to the extent that we did, we're very comfortable with an 85 percent availability for that plant.

I'd now like to turn to the Alberta units, and I'm going to break these down. In 2008 there was poor performance across the Alberta coal fleet, but in 2009 we undertook an accelerated maintenance program, and as a result of doing that, we've been able to put a majority of those issues behind us. We were also fortunate to be able to do that work during a time when commodity prices are low, because, as you know, under our PPAs, it costs us money to do our maintenance turnarounds.

Throughout the first and second quarter, we were able to complete successful turnarounds on our Keephills Units 1 and 2. Now, this really paid off for us. Keephills in the last quarter performed at 97 percent availability. Don't put that in your models; that is not going to last. But what we're confident of is that we have Keephills set up to run at a consistent 89 to 90 percent availability. It's one of the strongest plants in our fleet, the ones that we operate, and the turnarounds that we did earlier this year were very successful and will continue to be so.

Now, those two units in their next turnarounds come up in 2011 and 2012. When we do those, we're going to do uprates. When we do those uprates, we actually believe those uprates, because we spend a lot of time on the steam turbines, those uprates will give us even better efficiency. So we might have a better availability a couple years from now. We'll tell you about it when we get there, so for now you can count on sort of 89 percent out of our Keephills units.

When we look at Sundance, we've also had many successes there. We conducted two major maintenance outages and a pit stop on one of our units there, and overall these units are running very well. We're just bringing back Sundance 5; Sundance 3 is done, and we've done work on Sundance 1 there.

Now, unfortunately it only takes we call them bad actors. It only takes one or two bad actors in the fleet to offset some of the strong performance. In our Sundance plant, Sundance Unit 4 is what we call one of our bad actors. It's not terrible, but it's a unit that, until it gets turned around early next year, causes us more problems than average. We have more forced outages there than what we would like to have and what we expect.

So clearly we've been focusing significant effort in ensuring that we can do a turnaround early in the next year on this unit, and then we have one more unit at the plant that will be done in the summer. And once those are all done, then I would say that all of the issues that we've been facing in Alberta thermal will be behind us. So that gets us set up for the short term.

Your real issue with us should be, Are you going to sustain that over the long term, and what does that look like, and how can you tell us you're doing that?

So this next chart is really what that looks like.

Just before I do that, just for your information, when I look at the Alberta thermal fleet, so that's the plants at Keephills and at Sundance and I look at them as a group together I expect them to run at about an 87 percent availability, plus or minus a percent, and that's also above what NERC would call good performance. NERC would have those plants sitting at about an 85 percent. The PPAs would have us perform at 86 percent, so that plant is capable of running on a sustained basis at an 87 plus or minus a percent basis, and that's what I'm expecting out of our team.

So when we look at this chart, what you see, if you can understand it, if you look at the little guys down the rows there, it tells you when we did our turnarounds and when we're expecting to do them. Because we had such a heavy year this year, we only expect to do three majors next year. That is not going to be the case going forward, though.

What you'll see, is as we go forward in 2011 and 2012, we get to a place where every year we do four turnarounds in the coal fleet, and we do one at Centralia, so we do five units a year.

What's good about this is we could organize our teams to be able to deliver some good costs and good performance in terms of our major maintenance. And what's good about it from your perspective, is if you can see this kind of planned maintenance schedule, and you can see us doing this on time year after year, what you can be assured of is that the numbers that I just gave you in terms of the expectations for our fleet will be held.

So now I'm going to start talking about our efforts on planned maintenance, and this is really a strategic imperative for us within our drive the base.

We fundamentally believe that the more work we can do on a planned basis and it's a true story in our industry the less forced outages we have, the more we can cut cost, and the better performance we can deliver.

So last year we spent significant dollars in planned maintenance events in the Alberta coal fleet. I mentioned that we spent money at Keephills Units 1 and 2, Sundance Units 3 and 5, pit stop at Sundance 1 and at Wab., and a boiler modification at Centralia. It was a very busy year for our company.

I've already shown you what the outage schedule looks like going forward. The one thing that's going back, if you want to just go back to that chart for a second the one thing you see down the side is that for each of our units, given all the work that we did this year, all of the engineering we've done on the units over the last couple of years, all the condition based assessments, we have now decided on a unit by unit basis to be much more precise about what the average duration of a maintenance turnaround is.

So for some of our older units like Sundance 1 and 2, they're on 24 month schedules. Some of our younger units, like Keephills 1 and 2, they're on 24 to 30 month schedules. They can actually go probably on a 30 month schedule on a sustained basis.

We do believe that once Keephills gets uprated that there's a pretty good chance that unit can be then stretched to a 36 month cycle. We will run it for one 24 to 30 month cycle after the uprate to test that hypothesis, and then we'll be able to come back and tell you whether or not that's a true story.

Because we've now put specific turnaround times for each unit in our fleet based on all the unit by unit assessment we've done, this is how we average out to five turnarounds per year.

This next chart shows what we're thinking about in terms of planned and unplanned rates for our coal fleet.

To the right you can see on the chart the economic benefit that we believe there is if we significantly reduce our unplanned outage losses.

You can see that over the past couple of years, our forced outages and plant losses have increased in the Alberta coal fleet, and we believe that turning that back around so that we're spending more time and energy on planned outages will release a lot of cash for the business.

Unplanned outages are very expensive. They steal time and attention away from the business. We got to spend a lot of time reacting. They drive costs higher, and they reduce revenues because we can't control the timing.

All the research I've done in my career, all the research I'm sure you've done shows that if you run at a high level of unplanned losses, your costs are three to four times higher.

We have now clearly turned the corner here. Our team is focused on enhancing our planned major maintenance to reduce non productive forced maintenance events.

We know that if we reduce the forced outages, we'll reduce the costs. So what we believe is that lower costs and higher performance are not contradictory objectives. They have to be managed both in the same way, and really that's what my team is spending a lot of time on.

Now, what have been the results of doing all this work over the past 18 months? We have reduced the number of forced outages this year in the fleet. Every single turnaround that we've done has allowed us to get another one behind us and get back to a much lower level of forced outages for that unit.

And as we go forward into 2010, except for the two units at Sundance, you'll see all the units performing as were expected, and once those two units fall into place, the kinds of expectations that I talked about earlier in terms of the availability of the fleet will be in hand for us.

And, like I said, really what we're trying to do is we're trying to take the forced outage rate down by about four and a half percent, and our calculations say that based on about a \$40 dollar margin per megawatt hour, that gives us about a \$60 million dollar uplift in EBITDA, and that's an uplift in EBITDA that's absolutely needed in a time where we see moderate prices.

And our ambition is to make sure that you know that if we continue the program the way we've got it set out here, that you can rely on that year in and year out.

Now, let's talk about spend, and here I want to bring in some of our work on benchmarking.

To better understand our costs, we undertook significant benchmarking work with a firm called "Solomon," and we compared our major and our routine maintenance to coal plants across North America. Based on those results, we've made three significant shifts in our organization.

First, as I've mentioned and you saw in the earlier chart, we modified our outage schedules for each unit. This was based on a unit by unit assessment of plant condition, age, lifecycle assessment, strategies, and risks.

I've already talked about, what it means for each unit, so you now have that.

The second thing we did, is we moved our outage management and our planning functions back into plant operations. This was done very strategically and very specifically to ensure that the dollars that were being spent on routine maintenance could be coordinated with the dollars that were being spent on major maintenance and could all be directed toward reliability.

We did this in May. We ran our two major turnarounds for Sundance 3 and 5 in this way. We had a lot of involvement with our plant people when we did this, and I'll just give you a quick example of what that means.

Major maintenance in a coal plant usually is a lot about the boiler. Routine maintenance is a lot about the systems around the boiler. It's about bottom ash systems and mills and soot blowers and all sorts of things that if you're ever interested in knowing about, we'll tour you the plants and show them to you.

Having the plant managers and the operating people in charge of how to coordinate all that ensured that the boilers would be getting fixed, and at the same time all the auxiliary equipment they need to support those boilers would have the kind of time and attention that they need as well, and what that does is it allows us to do that on a planned basis at a lower cost, and it also allows us to reduce forced outages. So that was a big move that we made this year.

Thirdly, we created a separate reliability engineering function at the plants that reports directly to the plant manager, but we've given them all a red phone to the chief engineer's office.

Our chief engineer, Bob Emmott, is probably one of the busiest people on the planet because he's one of the most respected people in the industry. And all of the engineers that are out in the plants that are dealing with reliability issues call on him almost every day for issues that they're trying to deal with. And he's got extensive experience in the industry and not only gives them guidance, but as they begin to develop a lot more of their capability there as they work with the plant managers, we're starting to see some very specific ways in which we

can increase our reliability and, again, reduce our costs.

Now, these changes when we made them earlier in May allowed us to reduce positions, cut extraneous costs, and increase our focus and reliability, so we've already seen and I think you've seen some of our results on costs this year. We've already seen that being much more specific in this way is actually less costly.

All that being said, we're still not satisfied. Benchmarks would say that the average cost of a major maintenance event in a coal fleet of the age of ours is in the order of \$30 million per outage. We're at \$38 million, so we're \$8 million above per outage, eight times five outages a year is \$40 million.

So our teams are focused on how to get that \$40 million out. We've set a goal to have that done by the end of 2012 at the latest. We're already endeavouring to do some of it in the 2010 time frame, and we're really setting up for 2011, but we're not satisfied there, and we'll be reporting back to you on that as we go.

TransAlta also now, you saw in the chart and probably didn't pay too much attention to it, but we have procurement in our operations area. The company has spent a long time putting a strategic procurement group in place. Any of you that follow what it means in the procurement industry to do this, it's very, very tough. Nobody wants to use the procurement people to buy their stuff. The front line operators want to call their buddies in Spruce Grove, and so it's taken a lot of time to really get this important function set up in our company.

Having our head of procurement, Dawn de Lima, at the table with our operations people makes an enormous difference, because now she can align her procurement people to all of the work that they're doing on the major maintenance events and the routine maintenance.

Now, on a fleet basis, last year we told you we'd spend between \$200 and \$230 million on planned major maintenance in 2009. We knew that in order to do that we needed to find \$30 million in cost offsets from productivity, and we did.

We delivered the 2009 outages for \$235 to \$245 million, and in that number is the extra \$30 million that we had to spend because we moved Sundance 3 into this year. So we had a good year overall in terms of the capital costs spent on major maintenance.

So just to kind of pull it all together, we expect the work we've done this year, including maintenance completed on the Alberta coal plants, modifications to our maintenance outage schedule, the shift in our ratio from planned maintenance versus unplanned, and the planned capital spend that we've outlined going forward will keep our fleet in stable operating condition, and it will lower our forced outage rate.

As a result, we fully expect our fleet to be at an availability range of around 90 percent, and we fully expect to drive incremental value in EBITDA from our operations relative to that plan.

I'm going to talk for a couple of minutes about our strategy to

reposition coal, and it really does kind of link back to what I just talked about, and then we're going to take a quick break.

Repositioning coal is our second strategic imperative, and if you look up at this chart, you can see that we've now begun to align our major maintenance costs, our outage durations, our equipment conditions with our lifecycle assessment investment decisions.

In our coal plants, we can minimize lifecycle costs by making key investment decisions roughly seven to eight years before the end of life. So what is the end of life? Steve talked about, in the regulatory environment, we're hearing politicians starting to talk about end of life for coal plants being 45 years.

When you press our engineers and say, what's the end of life of a coal plant? Now, I mean by the end of life like we're not investing to get life extension, we're not investing to get a couple more years, we're just running it until the last day.

If you press the engineers, they'll give you 45 years with a lot of confidence, 46 years with less confidence, 47, they start to look at you and turn white, and if you say the word "fifty," they just say no, and they say it really loudly. So we know that somewhere between 45 and 50 years is where these units no longer run.

They also say to me, though, very clearly, if you don't start your lifecycle investments seven to eight years in advance of the 45th year, you're going to pay a lot more if you wait till you get to the 50th year. It's a little bit like an old person and a heart. You give them the heart operation when they're 60, and they'll live to be 90; you don't give it to them when they're 85, and that's really what's going on with our coal plants.

With carbon legislation on the horizon, we believe and this chart really shows you some of the things we're thinking about that we have to be very, very careful about making assumptions about how much we should be investing in our coal plants, given that some of them may not be able to take advantage of CCS because it may not be ready yet, and some of them may not be able to get the kind of life extension that we're looking at.

So I talked about going you know, our two year maintenance cycles and three year maintenance cycles, if you think about it, the plants like Keephills 1 and 2, they have the best chance of having a life extension go along with them because they are not 45 until the mid '20s. CCS will probably be viable by then.

So when we think about Keephills and we think about the 2018 period, and we can start to say to ourselves, We should be spending more money on this plant because there's a good chance it's going to run for another 20 years. But when we think about Sundance Units 1 and 2, they're 45 years old in 2017. We have to be making the decisions today about how much additional capital to put in those plants. So we're already starting that work.

Now, when we look at our fleet in Alberta and we look at our position in Alberta, we have a great position in that market. Not only do we have water rights up at the coal plants, we have transmission, we have land, but most importantly what we have

is incredible community support for electricity in that region.

We and our colleagues up in that region have done a great job with that local community. When we went out there to announce that CCS project and all the local people were there to hear about it, you could just see this huge sigh of relief as that community thought about the future of its well being because those coal plants would have a life as CCS gets proven up.

So we have great community support out there, which means that we can actually use those advantages to either life extend a plant, we can change that plant to a gas plant, we can think about new coal technology with CCS. We have a lot of options up in that area.

So when we talk about our second strategic imperative about repositioning coal, that's the work we're doing in the background, and that's what we're thinking about.

So I just want to finalize those comments by talking a bit about the CCS project. As you all know, we announced that the federal government and the Alberta government are going to give us \$770 million to go forward on that project. We'll have to break that down. Initially we're going to take \$20 million, and we're going to spend it on what's called a FEED study, a front end engineering and design study, to better scope out the capital and the operating costs of designing, building, and operating what will be the world's first large scale coal fired powered CCS demonstration project.

We do expect that FEED study to be completed in about 15 months, so it will be done by probably the end of 2010, the beginning of 2011, and we do expect that FEED study to give us the best information that will be known in the world about what the costs are to build that project and operate that project.

I'm not going to comment on those costs today. I won't believe them until we see that study anyway.

One thing I do want to clarify, though, is there has been some discussion about, would Keephills 3 have to subsidize that project? The answer is no. The CCS project really does have to stand on its own, has to be economic on its own, and the FEED study will tell us whether or not it can be.

So if the FEED study is positive, and it gives us the cost profile that we're expecting, we expect this facility to be fully operational around 2015. It will remove one million tonnes of CO2 from the environment, and if it proves up CCS, it has the potential to increase the value of our coal reserves and our coal plants up there. And I think at the end of the day it really will establish us as quite a leader in the technology.

So giving the amount of information that I've given you today, I need to take a bit of a small break here. We have some coffee and refreshments. I think we're taking about ten minutes, Steve? Yeah, ten minutes.

So we'll be back in ten minutes, and we'll finish off with growth, finance, and then Steve will wrap it up.

Thank you.

## (ADJOURNMENT)

### MS. FARRELL:

Okay, thank you. This next session on growth won't nearly be as long or as detailed, but it's really some very exciting stuff that we're doing here.

I'd like to talk to you today in terms of greening our portfolio, about the success that we've achieved since last year. Since last year our strategy remains relatively the same. I think the only difference that you'll notice on this chart is that we are focusing more on combined cycle gas, rather than co generation in the Alberta market for very obvious reasons.

Our co generation strategy had been very much related to what was going on up in the oil sands. Some of that has now been delayed, so if some of that comes forward, we may change our view on that.

But more importantly as we've done the work to think about our sites up at the Alberta coal plants and have really come to terms with the advantages we have around transmission and water rights and land and stakeholders, we do see some real opportunities up there for combined cycle plants, so we're actively working on that right now.

We told you last year that we were going to focus on the west, and we were going to focus on renewables. We successfully executed on this. Since last year we've announced two 23 megawatt thermal uprates at Keephills, which we'll do in 2011 and 2012, two new wind farms, Summerview 2 and Ardenville, which will provide us with 135 megawatts in southern Alberta.

We accelerated the growth of our renewable portfolio through the acquisition of Canadian Hydro, and by executing on this, we've had a clear move to lower carbon generation.

With the acquisition of Canadian Hydro, our portfolio is now made up of about 22 percent of highly contracted renewables, and once Summerview and Ardenville come on stream, we'll be almost close to 25 percent or a quarter renewables. Now, in 2000 I think we were 10 percent, so we've come a long, long way in a decade there.

The acquisition of Canadian Hydro has added new markets and capability to our portfolio. We are now actively engaged in six out of ten of the provinces in Canada. All of these markets are really quite thirsty for renewables. You see it in British Columbia, Saskatchewan, Ontario, Quebec, New Brunswick, and, as well, they're all regulated markets where really what the utilities want to do is have the IPPs come in and build and own, and what they are looking for are long term contracts, which really fits with our risk profile and our investment criteria.

We believe, when we look at our combined portfolio between ourselves and Canadian Hydro, that we've got the opportunity to add 100 to 200 megawatts of wind per year on an ongoing basis. We also have a team that can deliver that internally.

We do believe that by bringing together Canadian Hydro and TransAlta, especially in terms of the wind, that we really do have

one of the premier wind groups in Canada. And as we get more and more into the acquisition, it becomes even more obvious to me how we're going to create that competitive advantage.

We've always had a very strong construction team that has delivered our wind projects for much less cost per kilowatt than anybody in the industry. They have a very strong on the ground operations team that allows them to deliver the operations of their wind farms at a lower cost than some of the long term service arrangements that we've had. So if you combine those two, we see some potential synergies there.

As well, they have a sensational team of environmental folks that have done some really terrific work in markets like British Columbia and Ontario on the permitting front, and, as you also know, they've been working on that Dunvegan project for quite a number of years now and are probably one of the only groups in Canada that's been able to get a hydro site permitted in Alberta. So we believe we've got a great team there.

On this chart you can see what we have under construction. Blue Trail, as Steve said, is going to be COD today. Some of you, too, in Ardenville are on track. Our team does a phenomenal job of not only costing but delivering what they say they're going to deliver.

And then we have the uprates. We are disappointed in the need for extra capital at Keephills 3. We do believe the project team is now positioned to deliver that project at its current costs, even under what we believe continue to be very tough market conditions for labour and productivity.

Now, all of you out here are probably hearing lots of stories, and we're seeing lots of stories where costs are coming down in the oil sands and different places like that. You just have to remember that Keephills is in this bubble just outside of Edmonton where there's a refinery being built, there's a lot of activity there, and we're still finding it difficult to get some of the labour and some of the trades that we need to really continue to push the productivity there, but we do think that that's under our belt now, and we do believe we can deliver the project for the costs that we've announced.

There's a lot more detail on each of these projects in our appendix, which you can look at.

This chart here is really, if you combine the Canadian Hydro portfolio with our own portfolio, here's what the opportunities look like. We see a lot of opportunity still for wind across Canada. New Brunswick has a call underway. We've been informed that they'll continue with that call despite what's going on with Quebec Hydro. We'll have to see how that goes. We do have a project there, which is an expansion at Kent Hills, which we believe will be very competitive in that market. So if they do follow through with what they're saying, we believe we've got a competitive project in that process.

Saskatchewan has been getting ready to do an RFP for wind for quite a time now. I think we believe that's very close and will happen early next year. With the bringing together of

the Canadian Hydro portfolio and ours, I think we probably now have the two best wind projects in Saskatchewan between what they had and what we had, and so we're very optimistic about our chances of winning an RFP there.

In Quebec, Quebec has really been aggressive, as you all know, on the wind side. I think they've added seven to nine hundred megawatts of wind, and we have a team there now that came from us from Canadian Hydro, and they have a couple of projects there that we can develop and expand upon, if we choose to do so.

Of course we see British Columbia up there. They've just recently announced that they're no longer going to allow Burrard to be used for planning purposes, so 6,000 gigawatt hours of demand for renewables is back on the plate in British Columbia, and we now are positioned with projects in that market.

So when we look across Canada, we see some real good opportunity for wind in a number of those markets.

In the medium to long term, we continue to be very optimistic about our geothermal opportunities with MidAmerican. We do expect to make a decision early next year about the current development that we're working on, and we do expect to make a decision sometime late next year as to whether we want to participate with MidAmerican on the next three units of development for the 2014 to 2016 time frame.

The geothermal reserves in the Imperial Valley really are the best geothermal reserves in North America, and they're positioned in a market that absolutely wants green. There is in that region I think we've told you this before the potential for development is in the 2,300 megawatt range, and really what it requires is some additional transmission to get the geothermal out of there, but we believe over the long-term that transmission will be made available because the thirst for these kinds of renewables, particularly geothermal, is a base load renewable, which makes it particularly attractive.

I want to spend a little bit of time on hydro. We haven't talked to you much about hydro in the past.

In the past year, we've spent significant time looking at our hydro assets on the Bow and the Fort Saskatchewan Rivers. The Bow system contains some of our oldest assets; our 98 year old plants are on that system, and we're spending a lot of time looking at what kind of capital it would take to actually extend the life of those assets for another 50 years.

The great thing about hydro is you build the dam for 200 years, and then you really should rebuild the power stations about every 50 years, and so you kind of get four power stations for one dam over a 200 year period.

Some of our older power stations and this is true in BC Hydro's system and also in Quebec's system those plants have been going for 90 years, and it's really a testament to the engineers at the time.

But we've been looking at those, been looking at

the capital costs, and we see an opportunity for some very moderate capital costs, some very long, very profitable life extension opportunities.

With the addition of Dunvegan to our portfolio and some of the prospecting we've done on the rivers for our own sites, we now have a series of hydro possibilities. Some of them are face lifts, some of them are upgrades, and some of them are brand new plants that are open to TransAlta as we go forward in the next decade.

Our new combined team has, some of the very best in terms of developers and environmental and permitting people, so we're very proud of that, and I think that that will be a very strategic advantage for the company in the future.

So we believe that as prices rise and carbon pricing begins to really become more apparent that people will be seeking megawatts from these hydro projects, and we'll be able to get some long term PPAs to be able to support the development of those projects.

If I just stand back for a minute and think about Alberta and TransAlta's position there, TransAlta has been always the dominant generator in the Alberta market. We are the incumbent.

If I look at our development portfolio, our wind properties in the south combined with our competitive advantage for properties in the central part of Alberta, combined with where we have all the hydro I think we have 95 percent of the hydro in the province, plus adding Dunvegan to that you put all that together, and TransAlta has, I think, one of the strongest development, one of the lowest cost development opportunities in Alberta. You sprinkle in there a world class CCS project, and you'll see that we'll continue to be the incumbent in that market for some time to come.

We have been doing significant work on natural gas. I talked a bit about that at the beginning. Our challenge there continues to be the same as it was last year, the year before, and the year before that, but I think this year we'll have some breakthrough there.

We fundamentally do not support a strategy of building natural gas for peaking. We don't see how you make money off peaking plants. We do believe, if natural gas suppliers want to have their gas go into gas plants, they have to start thinking about long term contracts. They have to compete with the long term costs of the free wind, the free water, and the cheap coal. And even if we have to take CCS out of the coal, the coal is still cheap.

So what we're encouraging them to think about, if they think they have all this gas that they've got out there that's coming from shale gas and coming from all over the place, what we're encouraging them to think about is what it looks like to be a long term base load supplier of electricity.

We've got a team working on that, don't know how successful we'll be, but I do think that once the gas producers really get clear that in order to take up a piece or a share of the electricity market, they have to think about how to contract on a long

term basis. I think that's where we'll get our breakthrough.

So before I turn the podium over to Brian, I would just like to reiterate a couple of the key messages here.

I hope you learned through the discussion of our operational issues that we are driving the base. I hope you take away that low prices, we believe, are likely here to stay, at least in the short to medium term, but that we have the ambition and the value system and the history in the company to ensure that we have low costs despite what prices are doing, and that's really what we're working on, what we'll continue to work on, and what we'll always work on.

I hope you take away from today that the fleet is strong. Many of our units do perform at optimized levels, and those that don't will, and they will shortly. I hope you also take away that the plans that we have in place will continue that far into the future.

We are repositioning our coal. At TransAlta, our market position in Alberta, our land, our access to transmission, our position with technologies like CCS, and all the good work we've done over the last 50 years with the local stakeholders and the local community is allowing us to build up some real multiple options and flexibility around what we do with our coal plants and our coal assets.

And then finally, we are greening our portfolio. Our growth portfolio is strong, and it's very strategic to us. It is aligned to markets and technologies that we do well. We have a competitive advantage in those markets, and we have a competitive advantage in those technologies.

We will grow earnings by focusing our investments in generation assets where we have a competitive advantage, which is the only way we know how to do it. You can buy earnings and get 7 percent returns.

To create the kinds of returns you need to be successful in this business, you have to have a way to beat other people and deliver that value to shareholders.

I'm now going to turn the podium over to Brian, and then Steve will close us up.

Thank you.

# Brian Burden.

## MR. BURDEN:

Thank you, Dawn, and good morning to everybody.

You've now heard from Steve and Dawn on our overall strategy and the progress that we're making in our operations and on growth, so I'd just now like to take time to outline our overall financial strategy, provide you with an outlook for earnings and cash flow, as well as their profile, discuss how we're going to continue to be disciplined in our allocation of capital going forward, and then finally talk about how we intend to maintain our financial strength and investment grade balance sheet in the years ahead.

As you know, the balance sheet and then strength is a fundamental principle for TransAlta, and we're highly committed to remaining a financially strong company. We believe this is the best way to ensure we create and enhance shareholder value, both in the short and long term. And our financial strategy is designed to create this shareholder value by focusing on three key areas: One, ensuring we have solid returns. We have unlevered internal rates of return targets, as you know, of 10 percent on new projects and a return on capital employed target of 10 percent or higher for our overall business.

We look for sustainable and steady earnings growth, and we also pay a strong dividend based on a 60 to 70 percent payout ratio on comparable earnings.

We also maintain a low risk business profile, and we believe that increasing our renewables and lowering our carbon impact will support a higher multiple for TransAlta.

Secondly, we will maintain a strong capital discipline, balancing capital allocation between growth, dividends, and share buy back. And finally, we'll drive continuously to look for ways to optimize our portfolio. And all of this is underpinned by our financial strength with a strong balance sheet and solid liquidity and a firm commitment to maintain our BBB, Baa2 credit rating.

So as we did last year, we've updated our view on our earnings growth potential based on new low, medium, and high power price cases. Last year these were based on \$7, \$9, and a high case of \$11 dollar gas. This year we're using \$5, \$7, and \$9 dollar natural gas prices. And as you can see under all these scenarios, TransAlta shows earnings growth.

Over the short-term, we do expect gas prices to remain somewhat low. However, we don't expect to see \$5 dollar gas over the long-term. So growth, therefore, in the short-term will depend on operational improvements and cost savings.

We intend to ensure TransAlta's cost structure, as Dawn has mentioned, is such that earnings are strong, even in a low price environment.

So we'll continue to strive to restrain OM&A, such that its growth is 2 to 3 percent below inflation, and we believe in the short-term it will actually decline from 2009 levels.

We expect to see operational improvement and, again, Dawn talked about this in depth coming through

from 2010 onwards, which will enhance our earnings growth, and higher prices should also start to increase this momentum as we go into 2011 and 2012.

Just turning to the next slide on our earnings profile, with the acquisition of Canadian Hydro and the renewable projects that we currently have under construction, our renewables portion will increase to about a quarter, as Steve said, of our overall portfolio. And with this, our EBITDA from renewable sources in 2012 is expected to grow to roughly 28 percent.

And considering we were at around 15 percent renewables by volume prior to the acquisition, this is significant. And given the highly contracted nature of our renewable portfolio, we believe this will start to drive an improvement in our multiple and will also attract new investors to TransAlta's stock.

Just now turning to our cash flow profile. Our medium and long term contracts give us both stability and underpin our earnings and cash flow projections. Under each and every gas scenario, whether it's \$5, \$7, or \$9 dollars, our cash flow remains strong, moving from around \$850 million to \$1.2 billion plus over that 2010 to 2012 period. This means that free cash flow available for growth and share buyback is at a minimum in the \$300 to \$400 million dollar range, and remember this is after paying a strong dividend and ensuring our operations have sufficient sustaining capital to give us stable and strong availability and production.

Obviously in 2010 we have allocated this free cash flow already to our current growth projects, and we will use some of our capacity to strengthen our credit ratios in 2011 and beyond.

But what this also means is that at the current stock price, if you think about this, the free cash flow plus the dividend gives around about a 15 percent return. Just over 5 and a half percent of this is paid in a dividend direct to shareholders, and the balance is invested in projects given an internal rate of return in excess of 10 percent unlevered after tax. Obviously over time it could be also used to buyback shares.

So turning now to talk a little bit more about our capital allocation plan.

We continue to execute this in a disciplined manner. We're committed to a strong dividend, as I've said, and to growing that dividend as we improve earnings. And this, as you know, has always been a key part of TransAlta's value proposition.

We also have an excellent development portfolio, as Dawn as shown you, and we will continue to be very disciplined in how we execute this. Any projects that do move forward will have to meet our unlevered after tax IRR range of 10 percent, and we can also control the pace of these investments.

We'd also continue to optimize our portfolio, and I think both our sale of Mexico and our new contract at Sarnia are good examples of this.

We continuously, as you know, evaluate all our assets, and we will look to either improve or divest of those that underperform.

We'll also continue to consider over time returning

any surplus funds to our shareholders through share buyback by carefully evaluating share buyback against our other capital allocation priorities.

As you can see on this chart, our cash flow projections from operations is estimated over the next three years around \$3 billion. A billion of this will go to sustaining our plants, mine, and our systems. Around \$750 million will be returned to shareholders through dividends, and around \$450 million, as you know, is committed to growth capital on our current projects, and then there's around \$200 million which flows back to our partners through the non controlling interest line. This leaves roughly \$600 million over this period in available capacity.

Now, this \$600 million gives us some capacity within our balance sheet for future growth, but as I've mentioned, it will also be used to strengthen our ratios in 2011 and 2012.

As you know, our ratios will be tighter in 2010 due to the Canadian Hydro acquisition, but they will recover strongly in 2011 and 2012. And over this time, we'll also ensure that our liquidity remains strong. We look to having a minimum of \$500 to \$600 million of liquidity, and at the end of September 2009, our liquidity was \$1.1 billion. This is because we maintain \$2.1 billion of credit facilities to support our long term contracting and collateral needs.

Turning to financing our future development.

Certainly when we look at further material growth in the near term, and obviously we'll only consider this if it meets our financial targets, it would be financed through a mixture of debt and equity. As Dawn has shown you, we have a strong development portfolio with projects in advanced development of over \$2 billion. This enables us to be very selective and choose only the strongest projects with the best returns.

We can also pace our growth so we continue to have a strong balance sheet with investment grade credit ratios. And we can also bring in partners or use project finance and other mechanisms to move our projects forward.

As has been demonstrated with our recent equity issue, where we have a strong growth opportunity, which is very well aligned with our strategy, our shareholders will also support TransAlta. And that said, as always, we will be disciplined and focused in both our approach and our timing.

So I'm just going to now just show you a little bit on capex for the next few years, so this next slide is looking at our sustaining capex, and you will see that it declines in 2010 as our Centralia fuel transaction is now behind us, and as Dawn spoke about, we have lower major maintenance and fewer planned outages due to the acceleration of maintenance that we carried out in 2009.

In both 2011 and 2012, as you see, we will have five major coal turnarounds, and therefore an overall sustaining capex in the range of \$310 to \$350 million with steady expenditures on routine maintenance and mine capital.

You'll note that in 2009 we spent \$40 to \$45 million on

productivity projects with two to three year returns, and we'll continue to look for these opportunities as we move forward, but at this stage, we've only put nominal dollars against productivity, as you can see in 2011 and 2012.

As we turn to growth capex, as you know as we've previously stated, we have around \$1.4 billion of growth projects currently under construction, and we'll spend \$340 to \$390 million in 2010, the majority of this related to our Keephills 3 project.

We do, however, as you can see, have limited committed expenditures in 2011 and 2010, and we'll look, as we continue our growth in a disciplined fashion, obviously making sure that we keep strong investment grade credit ratios.

And as you can see throughout this presentation, I've talked quite a bit about credit ratios, so I did want to just show you a new range that we're looking at as we move and as we absorb Canadian Hydro.

So this year I've given a range for three of our key ratios, and this is because they will be tighter in 2010 due to the acquisition of Canadian Hydro, and as I've said, they will recover strongly in '11 and '12. So the range for cash flow to debt is now 20 to 25 percent, cash flow to interest, four to five times, and debt to capital is 55 to 60 percent.

And as we've said repeatedly, and I've said it today, our plan is driven by our desire and commitment to remain at our current investment grade level and to maintain both short and long term financial strength and flexibility.

We have regular discussions with our credit agencies, and I'm pleased to tell you that all three agencies have now confirmed our stable rating as we've come through this transaction.

And as I mentioned earlier, we'll also make sure that we maintain strong committed credit lines and ample liquidity throughout this period and beyond.

The other thing that helps us is our debt profile. As you can see from this chart, our financial flexibility is helped by having minimal debt refinancing over the next several years.

So let me just summarize what I've been talking to you about. So we have a financial strategy and balance sheet strength that continues to support our low risk business model.

The outlook for earnings and cash flow growth is improving despite uncertainty, given low commodity prices in coal markets, and a higher proportion of our earnings now come from highly contracted renewable and natural gas portfolio, which we think will expand our multiple.

And all of this is underpinned by our financial strength and investment grade ratings supported by higher levels of contracting and a low risk business profile. So taken all together, I believe we have a strong financial position for TransAlta both now and in the years ahead.

So with that, I'll thank you all for your interest, and I will pass the meeting back to Steve.

# Q&A.

## MR. SNYDER:

Thank you, Brian, and thank you, Dawn.

Maybe just to sum up here before we go into the Q & A period, clearly it's been a very, very busy year for TransAlta. I think it might have been easy for us to take our eye off the ball at some point in time and not complete some of our goals, and I think I can report here today that did not happen.

And I think during the year the company has demonstrated a strong capacity and resilience for dealing with whatever challenges may be facing our industry, and at the end of the day, our goal is to obviously do that better than our peers as we go forward.

Maybe just to sum up the day, I would like to sum up by saying:

One, I believe we have made substantial progress to improve the operations in the specific areas of our fleet that required improvement;

Two, our fuel, geographic, and contract diversity delivers on two fronts. One, it does support, as Brian said, our low to moderate risk profile, plus it provides excellent growth opportunities through all the cycles, and I remind you that in most cases we own and/or control the energy resource itself; we are not dependent on others. We made excellent progress on our three strategic imperatives: driving the base, repositioning coal, and green our portfolio.

Overall, the corporation, as Brian has said, is in strong shape, and we are well positioned to leverage any market improvements that may come forward, and we commit to the shareholders that we are going to be disciplined and deliver on that value proposition we stated up front, and we certainly remain dedicated to fulfilling on that and to deliver that to all of our shareholders.

On that note and that summary, I'd like to invite the team who presented today, and I'll ask the rest of our senior team to come forward. We'll move right into our question and answer period.

So if Dawn and Brian would come up, also Ken Stickland, again, who heads up our environmental, health, safety, and legal operations, and Mike Williams, who heads up the human resource and communications group will join me. We'll open the floor to questions, and perhaps I'll just then direct them to the appropriate person to respond.

I think, Jennifer, we also might have some questions from our webcast group, and Jennifer will take those off, and if they're not covered by other questions, we'll try to get to those also, and any questions we do not get to today in the time frame we have, we will get back to you separately, so hopefully we'll have enough time to respond to all of your questions.

And I would ask that we do have, at the back, Michael and Jess have microphones, so that our people who are on the webcast can hear the questions. If you would use a microphone and identify yourself, that would be helpful to those who aren't in the room.

So I'll open it up.

Winifred?

**MR. FRUEHAUF:** Thank you. My question is for Dawn Farrell. As I can remember back in 2004 and 2005, TransAlta shocked the investment community by announcing a major step up in capital maintenance, about a four or five year program, and once we would get to about 2009 and beyond, we would be at availability rates of in the low 90 percent range.

We are far from that, and I'm just wondering what happened to that promise of short term pain for long term gain?

**MS. FARRELL:** I think in I mean, I wasn't here in 2004, so I'm not 100 percent familiar with that.

I think if you look back over the last couple of years, I think the capital that has been necessary and has been needed has gone into a number of the units. Like I said, we've put capital in the gas plants and they're performing where they should be, and we've put a lot of capital into Centralia, and it's now performing where it should be.

I think in terms of the amount there has been a lot of money gone into the coal plants. I think a lot of it, though, as I've said, has been on more of an unplanned rather than a planned basis, so I think really getting focused in on the specific units, the specific technical challenges with each of the units. Because remember TransAlta's fleet, Sundance Unit 1, it was built in the early '70s; Keephills was built in the late '70s; and really pinpointing where the money needs to go so that each unit can run to its own potential has really been what we've had some challenge with and now what I think we've finally gotten over the top on.

So 2004 to 2007, I'm not the person to comment on that. What I can do is take you from where we are today forward.

**MR. SNYDER:** Winifred, I think there's a fair amount of complexity here. The complexity is in balancing the aging of the plants with a trend certainly in the last two years, clearly from the Canadian government at least, that they would like to move toward a defined life span for coal plants that changes your thinking a lot on how you have to deal with the coal plants.

And add that, a lot of learnings from all that work that we did, and you put all that together, and we now see a better investment route for the plants that we would have seen two years ago relative to how much capital we put in, what the availability is, and what the market conditions are like, not only the next two to three years, but I think it was an optionality for the next ten years, which we're simply going to have to have until all this uncertainty in around carbon constraints are sorted out, hopefully sooner than later, and we actually would like those decisions pushed out. The further they get pushed out, the more optionality we have.

And so I think that's what's driven the change, and I think this is the approach we've got, given all those conditions out there is the right approach for today.

If the world changes relative to carbon five years from now, we'll be prepared for it, but we may

have to change again. Hopefully we don't.

**MR. FRUEHAUF:** We were told that the problem children are Sundance 1 and 2, but looking at Slide 19, it seems that the real problem child is Centralia. And I'm just wondering where do you expect Centralia to move to in terms of availability from the about 85 percent level that's shown on that slide?

**MS. FARRELL:** Yeah. I think just to be clear, the two plants that are left to be worked on at Sundance are Sundance Units 4 and 1, so 2 is fine. It's 4 and 1.

And if you look at Centralia, remember we've gone from burning coal that was in the local mine to modifying those boilers so that they can burn the PRB coal. PRB coal is powdery, and it's much hotter. It has properties that make it slag more easily, and it also, because of its powdery nature, is more difficult to load into the machines.

All of the boiler modification work is now complete. What you find in our industry, you've seen the bathtub curve before. You know, when a new modification is made to a plant at the very front end for the first six months or so as you tie in new equipment into old equipment, you tend to have issues that you have to deal with. We had that when we upgraded Centralia 1 last year, and we've had that coming out of doing Centralia, I think it's two last year and one this year.

So in a couple of more months, we'll be through that period with the second unit that's been upgraded. That's normal.

So we are just coming to the place now where we should start to see an 85 percent availability at those units with those boiler modifications, and that's based on a fairly high rating for the plants. They're rated at six eighty eight and, really, six eighty eight is the best those plants can do in October when you've got the best ambient conditions and sort of the best weather conditions. So that 85 percent is rated against what would be a pretty maximum output for those plants. So I'd expect what you've seen behind us on Centralia won't continue as we go into next year.

**MR. SNYDER:** Yeah. I think to be fair, Winifred, we identified quite clearly several years ago that when the plants were going through this transition, we'd get lower availability, and when we got through the transition, we'd be at 10,000 gigawatt hour production year on a normal dispatch, and that's where we're at today, and that's what we should expect in 2010.

Oh, sorry. Matthew, I guess I don't, whoever's first?

**MR. AKMAN:** I guess I have the mike. Matthew Akman from Macquarie. I guess the good news for you guys is my memory doesn't go back as far as Win Fruehauf, but the bad news is, I have some pretty good current information. So my question around that is your availability targets on especially Keephills.

You talked about high 80s availability on that plant. Dawn, I guess this question is for you. Your partner in Keephills 3, Capital Power or EPCOR is talking about mid high 90s availability on Genesee 1 and 2, and those plants aren't a lot newer than

Keephills, so what is it what is going on here? Is it the fact that the plant deteriorates that much in ten years? Is there a different technology there, or are they are you sand bagging, or are they overly optimistic? What is the situation there?

**MS. FARRELL:** Well, don't tell Steve if I'm sand bagging, for God's sake.

No. I mean, I've looked at our plants from you know, we've got the advantage of having a big fleet and an old fleet and a long fleet, so we can look at the availability deterioration of a fleet of plants, our own fleet, starting with Wabamun, going through the Sundance units, going through the Keephills units, going through we are a part owner in Genesee, and of course looking at Keephills 3.

When I've looked at it over the range of years and looked at the and you've got to remember, every single generation plant has an original design that goes along with it. And each of our plants, they started being built in 1955 with Wab. first, then Sundance in the early '70s, and then Keephills. We actually improved the designs as we went through. We know where all the design issues in every single plant, and we know kind of the trajectory that they'll go on as they go from Year 1 to Year 45.

Keephills is a different design. It has some different design components than, let's say, Genesee. It has smaller boilers with higher velocities in those boilers. The higher velocities in those boilers combined with more ash in the coal means that there's potential for more wear in those plants. So those are the kinds of issues that we have to study and put all together and bring into our models.

We also study all the plants in the NERC database. So when you look at those plants, they would say that a plant like Keephills by about now should be more in that 85 to 87 range. We've still got it running we still think that it has the potential to run in that 89, 90 percent range.

It is not going to run like Keephills 3. Keephills 3 is a brand new plant, absolutely should run at 93 percent. Genesee absolutely should be running in the 91 to 93 percent, and so as plants deteriorate over time, they'll trend towards where Keephills is today. So I'm very confident that that's the right level for that plant.

**MR. AKMAN:** Just to be clear, they're saying 96, 97 percent for

**MS. FARRELL:** For Keephills

**MR. AKMAN:** Genesee 1 and 2.

**MS. FARRELL:** Well, we'll see.

**MR. AKMAN:** Thanks.

**MR. SNYDER:** Yeah. We're going to strive for that, right? But, I mean, I think we're planning on numbers that would show more realistic relative to what industry trends and planning our costs around that.

If we get the higher number, then it will translate into better margins, not we've built a cost base to support that.

**MS. FARRELL:** Yeah. I think you're right. I just want to add a comment on that. You can get ninety I can get 96 percent in a quarter, and I can get 96 percent in a year. What I'm talking about is over a ten year period, year in, year out on average. I'd be surprised if they're talking about 96 percent over ten years.

MR. SNYDER: Yeah. I mean, we saw Keephills 1 and 2 run at those levels last quarter.

**MS. FARRELL:** Last quarter, yeah.

**MR. SNYDER:** And they'll probably run at that level in another quarter, but for three years in a row, I think you'd be saying that's too much.

We have a question at the back we'll get to. Jess?

**MR. CUSHMAN:** Yeah, hi, John Cushman, McLean Budden. Question for Brian.

The new credit ratios, are you thinking of these in terms of longer-term, or are these temporary ratios pro forma the acquisition to work through?

**MR. BURDEN:** Yeah, so this is for the 2010 to 2012 period, and the reason I've given the range is really because of the digestion in 2010 of Canadian Hydro, because you know we're taking on, around about a billion dollars of debt, so it's really to give us that flexibility and that we will come out of those strongly in 2011 and 2012.

**MR. SNYDER:** And, Michael, we have one over here, and we'll take one from the back right now.

**PETRO PANARITES:** I guess we've seen a very rapid evolution just to change topic in prospective carbon regulation in the US over the past few months also that has obvious implications for what may be forthcoming in Canada as well.

I want to hear from you what the top two or three variables or uncertainties or big issues within that prospective regulation, what those are and, you know, what keeps you up at night, and maybe give us a little colour on that.

**MR. SNYDER:** Ken, do you want to start off with that?

**MR. STICKLAND:** Sure.

**MR. SNYDER:** I'll add if I have to here.

**MR. STICKLAND:** As you look at the whole issue around greenhouse gases, it is complex. So if I was to think about the things that might keep me up at night, the first one is obviously this is very political.

We've seen in all jurisdictions, whether it's at the provincial level, state level, or at the federal level in both countries that this has become an issue that's taking a lot of time and attention, and the policies and the direction

of those policies is changing. So that's kind of one.

The second one is, it's not so much the absolute targets, because I think we're starting to narrow in in both countries in terms of where there's a comfort level, both politically and with industry. But the challenge for industry is going to be the tools.

So while we have a sense of where directionally we're going to go, what tools are going to be available, is it offsets, is it technology funds, is it mandated technology requirements? That's another aspect. And then finally, we're getting much more comfortable around time.

So that one doesn't keep me up as much, but we are seeing shifts in terms of the ability to adapt to new regulations as a company. That one doesn't keep me up, because we've always had a philosophy of trying to maintain optionality. We've never really bet on any one solution here, whether it's the fuels that we use, whether it's our view in terms of offsets that we should acquire, whether it's the amount of renewables in our mix, so those are the tools that we've used to deal with those uncertainties.

**ROBERT KWAN:** Just you talked about Sun 1 and 2 and needing kind of to be in that six to seven year time frame about what you want to do in life extension.

When do you expect to make that decision, and given if CCS isn't an option, what other things are you seeing moving around in, say, the next year or so that would cause you to, it just seems like based on what you've put out, that shutting those plants down is the way you'd go. What else are you seeing that could actually lead you to put the money into life extend there?

**MS. FARRELL:** Yeah. So we have kind of two decision points on Sun 1 and 2, so I talked about sort of seven to ten years before the end of life you want to make a decision about whether or not you want to start investing additional capital and take the bet that you will be able to life extend.

As we start to turn those units around next year and the year after, if we thought we were going to extend the life of those units, we'd start to want to put some additional capital in starting as early as next year, and we'd separate that out. So we have some decisions to make middle of next year and the middle of the year after on that.

Now, there's kind of two decisions there: One is, do you put extra capital in thinking you might get 15 or 20 more years, or do you put capital in thinking you might get three or four more years?

And as you know, as they come out of their PPAs, there's some pretty strong prices at the back end, so those are two very different sets of analysis that we'll undertake.

You then have a second decision you can make probably two to three years before the end of life. Now, that will be a more expensive decision. So for Sundance Units 1 and 2, we could make a decision next year that says, Well, let's put a little bit more money in and see if we can get a couple more years out, then when we get to 2015, 2016, depending on

how our CCS project has gone, we could make a second decision then to see if we could extend the life even further.

So those are two considerations that we have underway, and then of course the third one is what if you replace those plants with gas? And that goes back to my discussion around we would only do that if we could find someone willing to sign up for a long term gas supply that would have the equivalent competitiveness of the coal units, because the fourth option is always another supercritical coal plant with CCS attached to it.

So it's a pretty complex set of decisions. Some will be made early next year; some will be made 2012, and then we'll relook at them as we go forward in the 2015, 2016 time frame.

**MR. SNYDER:** Yeah. And I would say even though they're complex, there are actually not too many negative ones in there. It's really how much we can get out of it. You know, the PPAs were designed to assume an end of life, and so we can work on that basis, and we could also work on the optionality of some type of continuing on under various scenarios. So actually we're in quite a good position; it's just a matter of can we maximize it the sooner we make some decisions, the more we can maximize on it against the uncertainty, and we'll have to find that equation over the next 12 to 18 months.

**MR. KWAN:** And just following up on that, about two or three years ago at your Investor Day you talked or you wrapped some numbers around life extension. Have you refined your estimates?

You were saying you were going to do a bunch of work there. Is there any new numbers that you can talk about, whether it's the two to three year time frame or something a little bit longer?

**MS. FARRELL:** Yeah. We had some generic numbers for the fleet as a whole. I'm encouraging us not to look at it that way. I've talked a lot today about unit by unit assessments, and we will have some good -- we need to get Class 3 engineering type estimates for the kinds of decisions we'll make at Sundance 1 and 2, so rather than spending our effort looking at sort of a broad set of numbers where we're being much more focused and much more specific about the units as they come up for renewal.

So there are no additional numbers, and we'll have better numbers on a unit by unit basis as we go forward.

**MR. SNYDER:** Michael, right there. Thanks.

**MR. HAGSTROM:** Yeah, hi there. If power prices stay low into 2010, any chance that you would accelerate some of your 2011 maintenance into 2010 to take advantage of those lower power prices, similar to kind of what you've done this year?

**MS. FARRELL:** Actually, we did look at accelerating one plant already. And the reality is, you know, we would have been taking it from a 24 month cycle into more like 18 months. It's just not economic, so it's highly unlikely that we would do that.

By the time we get our maintenance done on the Sundance units in 2010, then we've got every unit on the cycle that we want it

on, and we'd like to stick to the time frames that we've laid out.

**MR. SNYDER:** Yeah. Although I would say the one benefit we have built into our maintenance cycle, Dawn, over the last two to three years, is that flexibility. In the past it was very difficult to move these. The planning was such that you sort of got locked in.

Dawn, and her predecessors, have built in a fair amount of flexibility that we can operate under, so even if we say it here today, it doesn't make sense if halfway through the year we decide to change that, we would have the flexibility to do it.

But to Dawn's point, it's increasingly looking unlikely, just given what we see right now. It's still possible halfway through the year to make a change.

I think there's one right here in the middle,

**MR. FERGUSON:** For Brian. Are the new lower credit metrics based on a continued 90 percent availability of the plants, and if so, what sensitivity would there be if the coal plants drop, say, 10 percent from the 90 percent, just the coal plants?

**MR. BURDEN:** Yeah, no. I mean, the credit metrics are a range really covering those three years, and obviously in 2010, the metrics are pretty tight.

We expect our operations to come back strongly next year, but, you know, there's a lot of different things that can affect the metrics, and I'm happy that within the ranges and scenarios we see for next year that we'll still be fine.

We'll be at the lower end maybe in 2010, but then we'll you know, our cash flows are pretty stable and pretty strong that we'll come back through that, so, yes, quite tight in 2010, but I don't believe, in all the scenarios we've looked at, I think we'll still be in good shape.

**MR. SNYDER:** If you look at our cash flow beyond, the dividend and the sustaining, really I think the main impact would be, we'd have to slow down the growth side and maintain the credit metrics.

**MR. FERGUSON:** But they are based on 90 percent availability?

**MR. BURDEN:** Yeah, they're based on the sort of 88, 89 percent availability, yeah.

**MR. FERGUSON:** Good.

And I have another question. Could you talk about the timing of the debt issuance that you have coming up?

**MR. BURDEN:** No. Basically I think as you know, we've put the equity in place. We've said we're going to do a long term debt, so we'll do that when we feel the market's right. So we'll do it in due course. So, no, I can't comment on the timing.

**MR. SNYDER:** Okay. Any other? Right here at the front, Jess. I think one right at the front here. Sure.

**MR. HUTCHINS:** Ryan Hutchins (phonetic)

from Wells Fargo Securities.

My first question is to follow and to piggy back on that last question for you, Brian. Do you see any changes in your share repurchase program for 2010? I know you talked about 2011, 2012 seeing a recovery, but any immediate for the next year?

**MR. HUTCHINS:** In 2010, your share repurchase or possible follow up

**MR. BURDEN:** I mean, obviously, you know, with just having issued equity and obviously with our credit ratios being tight in 2010, I don't see in the short-term that we'll be doing share buyback.

Obviously we look at it on a regular basis just as a comparison, and obviously we move our targets high to make sure we're getting as good a return. But, no, I think in the short-term, certainly in the next six to nine months, I don't see us doing share buyback.

**MR. HUTCHINS:** Okay. And the second question is for Dawn. You talked a little bit more about capital allocation, and if we were to spend a lot time talking about maintenance and you have defined where you're going to be in 2010 and so on, could you talk more about, you know, the growth capex?

We talked a little bit about renewables, how there's \$2 billion to \$2.6 billion over the next three years. Can you talk more about, renewable versus traditional, and what the amounts are going to be for the next few years?

**MS. FARRELL:** Yeah. I mean, I can say that a lot of it is where the opportunities are, right. And I think that our opportunities to deploy capital in the renewables in the wind business in the near term are where we'll be focusing in the short term.

When we make the decision next year as to whether or not we're going to proceed with the geothermal, that will start to push some capital into the geothermal, so we see wind first, geothermal coming closely behind it.

As we examine the hydro portfolio, we see some of that capital being deployed more in the 2013, 2014 time frame, and then gas is the big uncertainty. If we could get a breakthrough on gas, then again, it would start to take up some capital, but it's probably, again, not until the 2014, 2015 time frame. So wind short-term, then geothermal, then hydro, and gas after that.

**MR. SNYDER:** In the middle again and then we'll come back to Matthew.

**UNIDENTIFIED SPEAKER:** All right. Question on the natural gas versus coal; it was on one of the slides. What price of natural gas would you need to make that decision? What's the latest you can wait until you make a move on building those plants?

And on the natural gas supply contracts I'm throwing a lot of questions in here, but is it a function of price only, or is it a function of just making the gas available to you, and would you envision some escalators in a contract?

**MS. FARRELL:** The price I mean, I think we have to be, in my view, sort of in that \$6 to \$7 dollar a gigajoule range over a long period of time. There probably would be some escalators in there, but, we'd have to negotiate that.

The price really does have to be tied back to what the alternative looks like using coal or water or wind, so that's really the framework that we're coming at that from.

Our challenge, we fundamentally believe they'll find the gas. There will be always be the gas. What the gas suppliers want, though, is they want the ability to have you know, they like to give us a \$6 dollar price for a long period of time except for in the years when prices are \$15 dollars, and then they want the \$15 dollars, and that's what we can't do, because then that just makes it a peaker. So those are the kinds of considerations that we're looking at there.

In terms of time frame, you know, you can get a gas plant permitted and up and running in a two to three year time frame, so it can be very quick if we can get the right supplier.

**MR. SNYDER:** Yeah. Matthew?

**MR. AKMAN:** Thanks. Just a follow up on the question of construction program.

Do you have specific plans to build out in Quebec the wind assets that Canadian Hydro had won the RFP on?

**MS. FARRELL:** Right. We're just getting into that, Matthew. After we finish here today, I'll probably spend the next month working through their portfolio and looking at both those wind projects and, of course, Dunvegan and really understanding what the economics look like.

They really do have to meet our economic criteria, and so that's what we'll be really testing there. But to the extent that they do, then we could see those coming.

**MR. SNYDER:** I think we have a website question, so, Jennifer?

**MS. PIERCE:** Thank you. We have a question from Bob Hastings at Canaccord Adams. Brian, this question is for you, and it says, Under the low case scenario with natural gas at \$5 dollars per MMBtu, does that imply that 2010 EPS below a buck twenty five given Wab. 4 outage and the Canadian Hydro transitioning costs?

**MR. BURDEN:** As you know, we don't give guidance, Bob, so we don't try and give it by year; we just try to give the natural sort of progression through there, so I'm not going to give 2010 guidance.

I think Dawn has said we're going to push very hard on our costs, and also we're going to see operational improvements. So I think when Bob flexes those things into his model, you know, depending what price it does, I think we will see some progress on those two areas.

**MR. SNYDER:** Okay. Is there any other

questions from our audience? Winifred?

**MR. FRUEHAUF:** I've got three questions for Brian. How much goodwill will the acquisition of Canadian Hydro Developers add to your balance sheet?

**MR. BURDEN:** Obviously we're still going through all of those calculations, so I'm not going to give a number out at this stage. A lot depends on how we capitalize some of the expenses, et cetera, but obviously in due course we'll have a number on that as we close.

**MR. FRUEHAUF:** Okay. And on Slide 4, excluding Canadian Hydro, what would the 2012 earnings per share have looked like?

**MR. BURDEN:** And, again, we've not given out separate pieces. I think the thing I have said is that Canadian Hydro will be dilutive to earnings over the next three years, so that's 2010, 2011, and 2012, and I think we've given a number of around about 6 to 7 cents.

**MR. FRUEHAUF:** I suppose that if we were at the low case in Slide 4 and it had an earnings per share of \$1.25 by 2012, your dividend payout ratio would certainly be blown out of the water. So you need at least the medium case in order to maintain the dividend.

**MR. BURDEN:** I think we'll still be able to maintain the dividend. Obviously we've got quite a lot of cash flow even at the \$1.25, so I don't have any issue with that, and I think there will be a lot of more problems for a lot of different companies if we see \$5 dollar gas for four and five years, so I don't expect that as a scenario.

I think also, you know, as we've looked at it, if we were seeing \$5 dollar gas for a long term, I think, you know, we'd have to keep looking at our cost structure, and we'd have to have a lower cost structure to be able to improve earnings further.

**MR. SNYDER:** And I would say, Winifred, the 60 to 70 percent payout is sort of a medium term sort of target, and any one year we'd go below or above it based on just one year results. We'd only look at shifting that if we had sustained multi year changes in the market dynamics, which we don't see right now, so you know, we're not going to be a slave to the percent. It's a target and the target to be achieved over a multiple year period.

Right at the back, Rob?

**MR. NICHOLSON:** Yeah, Rob Nicholson with RBC. Steve, this is a question for you. I know you're feeling a little lonely up there, so I thought I'd direct one to you.

You mentioned early in your presentation about the uncertainty facing the industry, just generally, and in particular you talked about technology as one of the moving targets, I would say.

I wonder if you could give us a little information on what technologies you think in particular are important and what TransAlta's doing about those?

**MR. SNYDER:** Yeah. Well, the most immediate one is obviously carbon capture. It will determine then if the long term viability of coal plants. If it's going to, one, work, which I think the science says it pretty well works. The real issue is the cost of it, and it's really the cost relative to other technologies.

So what we're faced with, one, is will carbon capture work? And if you believe carbon capture will work, you tend to preserve your coal resource and your coal optionality.

If you really believe nuclear is going to take over the markets, you would not build a natural gas plant. You would just be waiting it to build nuclear. If you feel nuclear can't be a big player, you would want to go perhaps natural gas.

So this is the dilemma facing industry today, because the decisions you make today will be here 30 years from now, because they'll be infrastructure projects, just like what we have today's was built 30 years ago, those decisions today.

So this is where the industry's in a dilemma. Do you think nuclear will go forward or not? Do you think natural gas will go forward or not, or do you think carbon capture will work or not? That's the uncertainty, and you know there are as many views on those issues as there are people in this room, and yet we're forced to make decisions.

So that's why our whole focus here is on optionality, don't go down one path too quickly too long where you can't retreat if it turns out to be the wrong one. You need to be able to go down and come back or take some other ones. And at some point you make decisions, like Dawn said, on Sun 1, 2, you get to a point, here's this arm, we got to make a decision. You just don't want to bet the company on any one of those right now.

So I would say the and why our interest in carbon capture is to get early see through to how successful this is going to be without exposing our share owners to any risk.

So by doing this through with government support, we reduce the risk profile, we'll get a see through will this technology work, and so that's I think those are the areas that are the longer term, the whole issue of the industry is where's distributed generation going, where are smart grids going, will the US say all trucks have to be gas driven, natural gas driven, which will change the whole dynamics of our industry and power electrical vehicles, but those are 2050 issues, and somehow we got to get from here to there and survive, so that's where the optionality comes in.

Short term, will carbon capture work and be successful? Cost effectively is probably the single biggest issue the industry is facing, given the huge coal reserves, not only in Canada, but in the US.

Well, one here, and then we'll come back to Winifred. We have one in the front who hasn't asked yet.

**MR. JOHNSON:** Dave Johnson (phonetic) with Wells Fargo. Sort of a two part question interrelated, and, Brian or Dawn, I'm not sure who wants to take this, but you talked a little bit

about the discipline of your hedging strategy, how low gas prices, you continue to do your contracting line of strategy.

With the tick up in leverage due to the Canadian Hydro, any change in your hedging strategy going forward?

And then secondly, I think this is somewhat related, we've seen a little bit in the PPA market, particularly in the United States, a little less robust PPA market and sort of a variety of factors there, a lot of uncertainty obviously around climate change, but do you see any less robust PPA market in Canada and people less willing to sign long term contracts?

**MS. FARRELL:** I actually see the opposite in Canada. I think it's becoming more robust and, you know, for sure in British Columbia, Ontario, Quebec, New Brunswick, we've seen, you know, the local utilities there very much want to continue on the long term PPA front.

So I know that there may be some things going on in the US market, but certainly in Canada we've seen the opposite, particularly for technologies they want. You know, they want wind, they want hydro, they want green, so that's where we're seeing the possibilities.

On the hedging strategy, the answer is, we'll keep it the same as what it's been in the past. We always continue to do work every year on that to test it, but even with that up tick, we still think it's a prudent strategy.

MR. SNYDER: Okay. Any other questions from the audience?

**MR. KOLODZIE:** It's Matthew Kolodzie from RBC Capital Markets.

Can you talk a little bit about the integration with Canadian Hydro in terms of people and costs and if there's any overlap or any cost savings just on an ongoing basis?

I know you talked a lot about how you're going to review the potential capital growth, but if you can just talk a bit about the integration.

**MR. SNYDER:** I would say certainly to date it's going very well. I'll say that. We've only been at it a few weeks.

Mike Williams developed we spent three or four months developing a work plan, how we would go in and work with them. They've been very cooperative on their side, and as we sit here today, I believe that we will have the integration fully complete to our satisfaction certainly no later than year end. That's our goal, and we're all tracking towards that right now.

So far no surprises, working well, and we think we'll end up with a well integrated operation by year end.

**MR. SNYDER:** It starts on the structure side.

I see on Dawn's side in looking at their portfolio and getting into operations, that's going to take, obviously, a bit more time as working with them and going forward.

Sorry, there's some other you want to follow up on that?

**MR. KOLODZIE:** Okay. No, that's fine. If you don't have I thought maybe you'd have sort of a number for cost synergies and that.

**MR. SNYDER:** Yeah. It's not, a large acquisition relative to our size, but I think we indicated that, you know, we would hope there would be in the \$5 to \$10 million range of cost savings, and I think we sort of still see that.

They're not significant to our operations, but I think that's sort of the if you just look at the size of their company, that's what you would expect, and we sort of feel that's the range as we go forward.

Okay. We don't want to we're not trying to drag this out, but we do want to respond to questions, and if there I see hands pointing, so there must be one somewhere. Right here. Oh, Winifred, sorry, we've got to come back to Winifred here.

**MR. FRUEHAUF:** Before asking my third question of Brian, I have one for you.

**MR. SNYDER:** No, go ahead, ask the third one of Brian, it's fine, but . . .

**MR. FRUEHAUF:** No, I'll ask you first, if I may.

**MR. SNYDER:** Okay.

**MR. FRUEHAUF:** Why do you think American Electric Power was able to start the globe's first CCS project just a few days ago when it will take in Alberta until 2015 to know whether it's a go or no go?

**MR. SNYDER:** Well, it won't take us to 2015, it will take us, as Dawn said, to the end of the FEED study probably at the end of 2010, early 2011. First of all, the American Electric project is 10 megawatts; ours is 100, so it's a factor of ten scaling.

So if you look at how they're doing the CCS projects, EPRI, the industry research centre, did a 1 megawatt plant that worked, the AEP is a factor of ten to ten; we're a factor of ten on that to a hundred, and if our plant works out, the next plant would be a thousand. So these have been staged in factors of ten, and we will use the input from their running of a year into our FEED study, and that will help us to sort out ours.

But we will make we collectively, our partners, and Alstom, and our financial partners, the governments, will make that decision late 2010, early 2011. 2015 is when, assuming we go forward, we'd have the plant fully built, up and operating on an ongoing basis.

**MR. FRUEHAUF:** Well, that's what I was asking you about. But are you saying that if AE's built a bigger CSS facility, it would not have been able to bring it into commercial operation a few days ago?

**MR. SNYDER:** No. I mean, I can't speak for them. I mean, their project has taken a long time to get built. It's smaller, so it makes it a bit easier, but our construction time is, Dawn, about three years? Yeah, a plant that size, that's I think that's a fair number.

So it's really in the construction that's the time. Once we make the final decision, just how quickly can we get the thing physically built, and that takes about three years to build a plant of that size.

**MR. FRUEHAUF:** Now, my last question to Brian on Slide 11, and what is the 2009 expected interest coverage ratio, and how does it compare with 2008?

**MR. BURDEN:** Yeah, so the 2009, you're talking about the cash flow to interest? I think our latest numbers say that'll be close to around about five times, and I think in 2008, it was probably slightly higher, probably 5 and after 6 times. I haven't got the numbers in front of me. We can confirm those, but that's, I think, directionally correct.

**MR. FRUEHAUF:** I wasn't talking about capital, I was really talking about the income statement, but (inaudible)?

**MR. BURDEN:** Yeah, I haven't got those numbers in front of me. We can obviously send them to you, but

**MR. SNYDER:** Jennifer, anything else from the webcast that hasn't been covered yet? No, they've all been covered. How about Matthew?

**MR. AKMAN:** Thanks. I have a few clean up kind of questions, so maybe hang out for a bit, but . . .

**MR. SNYDER:** Just give him the microphone, Jess, toss it to him. I'm not sure if we should do that or not, but go ahead.

**MR. AKMAN:** They are important questions.

**MR. SNYDER:** You don't have to stand up, though.

**MR. AKMAN:** It's not lunchtime yet.

But, no, one of my questions is around the Alberta power market and, Dawn, on page 8 you have a slide showing in 2013 reserve margins in Alberta ticking up significantly, and I'm just wondering what you have in mind that's driving that on the supply side, especially because it's hard to get anyone to build power plants in Alberta at an \$80, \$90 dollar forward curve, never mind a \$55 dollar forward curve. So, I mean, what is that, and who's going to build it?

**MS. FARRELL:** Well, I think what our analysts have put in the models there is ENMAX is working hard to build an 800 megawatt gas fired plant just outside of Calgary, and up until this year, we hadn't been putting that plant in, but they've spent a significant amount of money trying to bring it along, so I think this year we've put that plant in.

There's still some uncertainty around that, but that would be some of what would be changing that reserve margin. The second thing is we've lowered our demand expectations as well.

I think that one needs we'll have to watch that carefully, because, as you know in Alberta in the summertime, we saw some demand destruction, but it was when we looked at it fairly

closely, it was mostly those refineries that had those problems in the summertime. We were actually running out of gasoline in Alberta, and to the extent that they fixed some of their issues, we wouldn't expect to see that on an ongoing basis.

So I think depending on how much demand comes back in Alberta will determine what that reserve margin looks like, but I think the big player in 2013 is the ENMAX gas plant.

**MR. AKMAN:** Okay. That's the swing factor. And then on KHD, you guys haven't had a chance to say a lot about kind of the direction you plan to take this platform, but presumably some of the growth pipeline was why you bought the company, not just on the cash multiple of the current assets.

And you've said you're not sure about Quebec yet. In British Columbia, I mean, AltaGas, Pristine, and Plutonic seem to have the three big kind of hydro plays tied up.

What was it about the growth pipeline of KHD that really attracted you? What is your first kind of priority or action area for working on the growth platform or pipeline that they have?

**MS. FARRELL:** Yeah. I mean, Canadian Hydro, first and foremost, we liked the existing portfolio of operating assets, and what attracted us to the company was that we could get the returns that we needed out of the existing assets that they have coming on stream.

And so really their growth portfolio came as a bit of icing on the cake as opposed to it was the cake. We didn't buy the company for that portfolio; we bought them for the value that we could get out of the existing assets.

Now, notwithstanding that, when we put the two portfolios together, we're doing an analysis of what we call the best of the best, because we thought we had a fairly strong portfolio ourselves in terms of our wind and our geothermal and now some of the work we've got on hydro.

So what we're looking at in the next month is really saying, Okay, where have they got the best opportunity, where do we have the best opportunity, and what we've got to do is get all the economics on the same scale, because we have, as you know, pretty tough criteria in terms of what it takes to invest in a project.

So really at this point I've got directionally some ideas. You know, I like Quebec as a market. It's been good to wind producers. I mean, I love New Brunswick. They're excellent to deal with.

So directionally we think Saskatchewan, New Brunswick are good jurisdictions, followed by Quebec and Ontario and British Columbia. But really until we get into the specifics of their projects compared to ours, I don't want to be making any projections of which ones will win.

**MR. SNYDER:** Yeah. I think here, Matthew, first certainly it adds the ability in Ontario and Quebec right away, so we'll take a pretty serious look at that where we don't really have strong wind operations, so we can leverage

theirs. And then of course it strengthens the hydro potential we have by bringing the hydro teams together.

So that strengthens that portfolio. So I would actually think that there will be good development opportunities come out of it. Exactly which ones and which ones take part over ours, we're not sure yet, but net that, we've got a bigger portfolio and more to choose from, and it would really be a matter of how much we do in the market, the more market based restrictions and, you know, I think in our development, we won't lack for projects. Really, how much can the market absorb.

And questions over here?

**MR. KWAN:** Dawn, you talked about on Canadian Hydro what you think you can get out of some of the existing projects. Their project bids or a number of them in addition to the realized returns were pretty close to 10 percent they were targeting on a pretax basis, and I know you've got, I believe, a 10 percent after tax return threshold, so can you talk about what you might be able to get out of those projects, is it tax that will be transferred over to the corp., and then when you think about some of the new projects, do they need to meet that hurdle rate on a stand alone basis, or are you going to be looking at it in being able to take some of those tax attributes and bring them over to the corporation?

**MR. BURDEN:** Yeah, I mean, I'll take that. Obviously each project we look at, we'll look at the attributes it's got, whether it's tax or whatever. We have got our hurdle rate of 10 percent after tax unlevered, as you've said.

And so as we choose those projects, as Dawn has said, we'll look and we'll rank them, and we'll decide which ones can go forward. And it's simple as that as we've always been doing.

**MS. FARRELL:** Yeah. And my understanding is that their hurdle, at least what I've seen has been a 12 percent pretax, and so we've got some work to do to really figure out what they mean by their return and what we mean by ours, and it'll take some time to get the models all aligned so that they're all on an equivalent basis.

**MR. KWAN:** Or does it have to be on a stand alone project basis, or are you looking at being able to take the tax and accelerate that?

**MS. FARRELL:** We do all of our projects in TransAlta on a stand alone basis first. So that's been our history, that's what we're comfortable with.

**MR. SNYDER:** Okay. One more at the back.

**MR. PANARITES:** And when you look to establish the viability of CCS, what kind of carbon costs are you using long term?

**MR. SNYDER:** Well, we're not well, that's what we have to determine. I think the what we're seeing appears to be that a lot of the current trends say carbon is going to be in the \$50 to \$100 dollar range, and the reason for pursuing CCS, it looks like all the current research would

predict that it could get to that level once it's full scale.

So those are numbers we're using right now, but, as you know, there's a lot of flex and a lot of uncertainty around it. But that's sort of the range right now.

**MR. PANARITES:** Okay. So in other words, if CCS does better than \$50 to \$100, then it's viable?

**MR. SNYDER:** Yeah. I think, you know, if you look at large scale hydro and large scale nuclear and their costs of power, it looks like they're north, certainly north of \$100 dollars a megawatt to bring new ones on stream, maybe even closer to \$150, and it looks like coal with carbon capture would certainly be in that range or lower, and so that's the driver right now.

If you could end up with a clean coal plant at lower cost than a large scale nuclear, a large scale hydro on an existing site that's already permitted, and that's a winner in terms of an environmental permitting viewpoint.

So the pot at the rainbow is really big, and you've got to put a bit of upfront money to try to get that opportunity to present it to ourselves.

I think we're are we sort of running out of questions? I think we'll bring it to a close, and I want to thank everyone.

The team will be around for a bit here if there's some individual questions. We thank you for your interest. We hope it's been helpful, and enjoy the day, and, as always at TransAlta, please drive safe.

Thank you.