

# Investor Day 2010.

## Inside TransAlta

Questions? **Answers.**

Multiple Fuel Sources  
**Singular Value**

**TransAlta**

# Steve Snyder.

## President & CEO

### MR. SNYDER:

First, my name, of course, is Steve Snyder, CEO at TransAlta. My pleasure to welcome everyone here today to Investor Day, and thank you for joining us.

A special welcome to those who are joining us on webcast, and we appreciate the effort you make to join us on that and hope you'll stay with us for the whole meeting today.

I would like to start, if I could, with a very brief safety message here for everyone, and I think for many of you, this may be your first time in this facility, so I think its good practice to note the emergency exits. I've been told there are no plans to test that system today, so if you do hear a warning, it's real, and you should exit quietly, calmly out the nearest exit and be safe. Thank you for your time to that.

I should just take a minute here, and I'll just introduce the TransAlta team who's here today. Some of us will be presenting, and those who aren't will, of course, be available during the break periods and after the meeting today if you have some questions you may want to ask them. I'll just point them out at the various tables here, if they could just stand very briefly and identify yourself so people know who you are.

We have Cynthia Johnston, who heads up our wind and hydro businesses.

We have Colin Mills. Colin, back here, heads up our natural gas, our biomass, and our geothermal businesses.

Doug Jackson, he runs all of our coal businesses in US and Canada. That's a pretty big job in the company.

Rob Schaefer heads up commercial business development, as well as our trading operations.

We have Jeff Gaulin. Jeff heads up government relations and communications. I think he's right at the back.

Everyone, I think, knows Jess Nieuwerk, he heads up investor relations. Thanks to you, Jess, you and your team, for doing a tremendous job getting this organized

today. It's a lot of work, and so thanks to you and your staff. We appreciate that very much.

At the senior team level here, we have Ken Stickland, who is our chief legal officer and also responsible for environment, health, and safety.

We have Mike Williams, who's our Chief Administrative Officer.

We of course have Brett Gellner, our CFO, who will be presenting; and Dawn Farrell our Chief Operating Officer, who will also be presenting.

Someone's probably in the audience saying you missed me. I didn't miss him. I didn't want to single out one person particularly, and he was worried that I noticed he stood up and waved, just he thought I'd already forgot about him, but we haven't.

Frank Hawkins, our treasurer. Frank announced earlier this year that he'd be retiring at year-end, and I do want to recognize his tremendous work on behalf of the company. He's been fantastic, really helped the company through all of these rough times the past ten years. We've been through all the cycles. He keeps telling me, say more, Steve, say more.

I know he's worked very well with all of the people in the financial market. So, Frank, thank you for all that stuff. Well, you're retiring, you're going to give us a bit of your time next year on some projects, and we look forward to that. So thank you to you.

I think that's it for the TransAlta team. Did I miss -- I don't think I missed anyone. You know who they are, and so please feel free to chat with them throughout the morning.

We have revised our format slightly this year in terms of our Investor Day. What we'd like to do is start with a very short video to give an overview of TransAlta and sort of clarify our value proposition.

Then we're going to move into the formal presentations, and really this year we want to try to make this meeting as relevant as possible for the attendees. Earlier this year we sent Jess and his investor relations team on a bit of a mission and really asked him, Jess, you meet with this group a lot during the year, tell me what's on their mind? What are the questions you get all the time from our investors that we should be addressing?

The result of that is Jess came up with 15 questions that he felt were the most asked questions about our company. This morning Dawn, Brett, and I are going to try to answer those questions for you. We'll do that. Then we'll go take a break and then come back, and we'll have a question-and-answer period to clarify anything or any other questions we have that we didn't capture in those 15, and we'll take time to do that.

I would ask you just as a point of procedure, since we do have a Q&A period today, that if you do have questions during the presentations, perhaps just make note of them, and we'd like to have those taken during the Q&A period. I think that will help us get through the presentations in the best way.

In terms of timing today in terms of our agenda, we'll take a break about halfway through the presentations so you'll have a chance to dialogue, get some coffee and get refreshed, we'll regroup, and our goal is to have you out of the room before noon hour, as committed. So that's the plan for this morning.

Are there any questions on the logistics or the agenda? Well, if not, then what I'd like to do is ask our video people to roll the short video, and then we'll come back and get started with the formal program.

(VIDEO PRESENTATION)

I hope that video's helped to set the stage for what we want to cover today, and we'll get into details on all the points that were brought up in that video as we go through the day.

However first, I do want to bring your attention to the forward-looking statements, the obligatory requirements. I know you've read it, understand it, so I think we can move on.

So let's start with I think the first question that should be on everyone's mind that we get all the time that we'd like to answer today, and that is simply, Has TransAlta's strategy created value?

My answer is yes. Now, our value proposition to investors has been consistent and straightforward. We provide a low to moderate risk profile that protects in the downside cycles, captures upside when markets improve, and provides a steady and reliable yield. I think this chart reflects exactly that.

If we look, and I'm not sure if this will show up very well, look at the 2000 to 2004 period. We know that was a difficult time for the industry. We came off huge capacity growth in the late '90s, hit the Enron and Calpine fiascos, and the market pricing really tanked, and a very tough time for the industry. As you can see during that period, TransAlta held its own during that period when many people suffered badly or went bankrupt.

2004 to 2007 markets improved. TransAlta captured that upside and delivered that return to shareholders.

Now we're in this 2008 to 2010 period. Markets again, due to the economy, in very tough shape. Again, TransAlta is holding its own protecting the downside during the tough markets but at a substantially better level than back in 2000. Why is that? It's because we didn't stand still during that period.

We steadily improved our position. We strengthened the company, and then we consistently delivered on the strategy we articulated, which was to diversify our fuels, diversify our geographies, and implement a long-term contracting strategy.

So if you look at the middle of this chart at the pictures, they're representative of some of the actions we took over this ten-year period to improve the company, and what was the result of those and other actions? One and most importantly, you can see our gross margins per megawatt hour steadily increasing year, after year, after year. We expect that trend to continue. That's one of the reasons why we're fundamentally stronger today than in 2000.

We also said we'd diversify our fuel base, and you can see the progress we made in the bar charts at the bottom. So we have not stood still during this period.

The other goal we had was to significantly increase our renewable portfolio. This chart indicates the success we've had on that. TransAlta made it very clear that we were not in renewables because it was a good thing to do; we are in it because it was a good business thing to. A lot of the improvement in the margin chart you saw on the previous page is due to the improvement in the mix of our fuels and percentage of volume they play in our business and that should continue.

So as we sit here today, we are the largest wind generator in Canada. We are sitting on excellent opportunities to expand in the immediate term our geothermal reserves, and of course as we go forward in

the medium term, we have excellent opportunities to both grow and expand and revitalize our hydro Rundle River assets. So in an excellent position to keep this track record going on the renewable side, and we can continue to improve those margins.

That's great. The last ten years I've heard Steve, you've done a good job. You did what you said you were going to do. You did it reasonably well. You protected the downside in the tough markets, you've given us upside in the good markets, and you got a constant yield. So obviously the next question we get from shareholders of course is, What does the next ten years look like for TransAlta?

Well, let's take a look. Now, several years ago at this meeting, we set in place some fundamental planks for our business. We said we were going to drive the base. All that simply put, all the words that is, that's operational excellence. We are going to get the most out of every existing asset that we have.

The second thing we have to do is reposition coal in the face of a looming environmental legislation. We said what we have to do there is make sure we had optionality during this transition period with a huge degree of uncertainty, and we've done that and continue to do that. These are two fundamentals that will stay with TransAlta as we go forward. They're not a fad; they're just consistent things we need to do well to deliver that shareholder value proposition.

The other key plank, we said we would green the company, diversify the portfolio, and grow the portfolio. You can see on the left side of the chart just what we're doing in the immediate two- to three-year period. These are all projects that are underway today that will come to completion by 2012, and you can see there's well over 400 megawatts that will be in capacity production by the end of 2012.

But going forward, we continue to have a lot of options. So we have obviously -- and we'll talk more about these today -- gas and hydro base load opportunities. We are currently a leader in CCS, and that's going to lead to a lot of opportunities in the future for coal.

Clearly today, in the markets today, we see it as a good time to be buying assets at the low end of the cycle for the economy, so there are opportunities there. We have a very deep organic greenfield growth portfolio, which we can bring to play when demand comes back and there's demand for that capacity, we have a capability to

put that into place and certainly enhance our acquisition of Canadian Hydro last year, which has made it really a first-grade development portfolio. So we have more on that plate than we need right now, but it's available for when the markets come back.

All of this is obviously being done in the context of our overall strategy of ensuring we have multiple fuels in multiple geographies while contracted as we go forward.

There's another big positive potential for TransAlta that's sitting out there, and that is significant upside potential as the Alberta PPAs get transformed into market-type contracts. On this chart we've tried to show at different price points for the market in post-2020 what the impact could be on TransAlta's EBITDA on just our thermal facilities. This does not include other projects, other growth, and other margin improvements. This is just strictly from uplift as PPAs come off and we can sell into market prices.

There should be a lot of questions about, What will the price point be for electricity in that period? We've circled here where we think the most logical price will be in that time frame, in that \$80 plus range, so why would we say that? It's a pretty simple equation, actually.

Today in the electricity business, the fuel of choice is natural gas, whether it's to replace old plants or to build to meet new capacity demand. If you take a combined cycle natural gas plant at \$4 gas and want to make a reasonable return on enough capital, you need prices north of \$65. It's a simple mathematical equation, and that's without inflation. That's just today if you were to do it today.

So unless you think that we'll have no inflation for ten years, unless you think we'll be in an economic recession for ten years, and unless you think that gas will be \$2.50 in 2020, prices have to be north of 60 to get any new production to come on-stream. Of course renewables are all above that price point. So at some point prices will need to move up. People sort of underestimate the strength of our thermal assets.

We today are able to sell under PPA contracts in the low 30s and make money. Those costs don't change a lot over the next ten years, because the main cost is really the coal, which doesn't really change in cost.

So as we sit here today, there's tremendous upside as we go through that PPA period. Whether the price for power is \$50 or \$80, it will only impact a degree on this

chart, but it won't impact the fact that we definitely have a big bounce coming on that side.

Now, as soon as I talk, I'm sure, about post-PPA potential, there's another logical question to be asked that could impact that, and that simply is, What does the future hold for TransAlta in a potentially carbon-constrained world that could impact the chart I just showed?

My response to that is actually opportunity for TransAlta. So why do I say that? Well, first, and you saw a bit of that in the video, you saw a version of this chart. There is going to need a tremendous amount of reinvestment in this industry, particularly in Alberta, in that time frame either to replace coal or to meet capacity demand. The fortunate thing for TransAlta is that period is going to coincide exactly with when we have to make decisions about our plants regardless of those forces. In other words, our thermal plants in that post-2020 period will be in the 45- to 55-year age group. It's a logical time where anyone in the business would say, Do I reinvest in the plant, do I rebuild a new plant, or what do I do with that plant?

So all of this would be happening anyways. It's going to be happening for us at a time when we'll have the market prices to support it and the demand to support it. It really makes a strong case for us in that post-2020 period. You heard a lot about the perfect storm, but I would use it in the positive sense. These forces will converge exactly at the right time for TransAlta, and we intend to take advantage of it.

It's not just an Alberta advantage; the same issues will apply in the Pacific Northwest and in the western part of the US where we also have our major markets. The opportunity may not be as big as the Alberta opportunity, but it's not insignificant either. We're well positioned to take advantage of that one.

So now we're saying, carbon-constrained world, we have optionality, and I think the next question we get quite a lot is, What about this carbon capture and sequestration, whatever it is, type of stuff? Where is that, Steve, what is that going to do?

Well, let's just talk a bit about carbon capture. First, my simple premise would be, it is going to work at some point, and it is going to be cost-effective at some point. Why do I say that? This chart is part of the reason why. Right now today there's \$26 billion being spent worldwide in 44 projects to find a way to cost-effectively

take CO<sub>2</sub> out of coal plants. This is just private sector money. If you add in the public sector money, the number is quite a lot larger.

Somewhere in all of that funding there's going to be a technology developed that will not be proprietary that the world will use on coal plants to allow them to run in the 2025, '30, and '40 period. So it's a matter, I think, of when and not if that were to happen.

That's why TransAlta has chosen to be a significant player in leading the carbon capture and sequestration technology push with our Project Pioneer, and I would say there are two reasons we want to be involved in this: The first one, the carbon capture gives us, when it's successful, a clear line of sight to a pipeline of 30-year growth for the company. So just to put that in perspective, today till 2015, clearly it's renewables and asset acquisitions can fuel our growth. We have the balance sheet to do the asset acquisitions, and we have the fuel reserves to do renewable growth.

2015 to 2025 I think will be an era for both natural gas growth, as well as for hydro rejuvenation and growth. We're well positioned in both of those fuel sources and in the markets we need to grow in. And post-2025, if the CCS technology becomes commercially available, we could go back to rebuilding our coal plants and using our massive coal reserves for the benefit of shareholders. That's why we're in the business. There's also a spin-off effect.

I think most people in our industry would say the next 15 years is going to see a lot of technical change in our business, a lot of technology change. It's not an industry that has gone through a lot. We're an industry that's not particularly good at managing technological change, and so you can make a lot of mistakes, I think, betting on technologies that may be the wrong ones. We've seen a lot of that in the solar business, and the technologies change quickly and people suddenly realize they had the wrong technology at the wrong time, and that was the end of them.

What we're able to do because of our CCS project, is we are dealing with an access in all the world's suppliers who are dealing with technology, but all those suppliers deal with more than CCS. They're dealing with distributed generation, they're dealing with smart meters, they're dealing with transmission issues. So through those associations, we are actually getting access to some of the leading-edge thinking on technologies for our industry. All that knowledge will

help us to make better decisions, I believe, when it comes time for us to make technology decisions. So besides CCS, it is giving this company a breadth of knowledge that we would not have had if we had not done this project.

A quick aside, I get asked a lot separately, Where are we on the CCS project? Let me sum it up fairly succinctly for you because we've been doing our FEED study now for almost a year, and that study probably has a good six months to go on it, I would suspect. But I would say what is showing to date is the technology does work. You can capture CO<sub>2</sub> technically and take it out of the stream from the effluent of a coal plant.

Two, the costs, which are obviously very high in these test plants, we can see them coming down. The question is, Can we get them down to a commercial level or not? There's a bit of a question mark there, but they're trending in the right direction, at least at this point in time in the study.

There are a couple of outstanding issues, one being the sequestration liability. But certainly in the case of Alberta, the Alberta government has said they want to take that on, and they understand they have to step up here and help work that process through. Maybe the key determining factor, though, in the short to medium term is the price of carbon. We were clearly heading, up till a year ago, to establishing a price for carbon. The price for carbon would then drive all the technology we need to solve the CO<sub>2</sub> issue. The price for carbon is on the sidelines right now due to the economy. It's going to come into play, I'm sure, the question is when. We don't have an answer for that.

That could impact the timing of when CCS gets implemented or other technologies, for that matter. So there's really no driver to put those into place if there's no cost or no benefit to putting them into place.

So governments are going to have to sort that issue out. I understand there are issues today with the economy. No one would propose a carbon tax today, but I think clearly over time we'll have to come back to that issue if we want to drive these technologies.

Now, I believe CCS will work. All our engineering work says it will work, and the reality is, if our particular technology, chilled amine, doesn't work -- ammonia -- there are other technologies that will, and we'll have access to it, and we'll have a better ability to pick the right one out of that group, given our experience we've

had with this project.

So the fallback isn't bad. I happen to think ours is going to work, but I'm not particularly worried if it doesn't, because there are other options for us. But then there's the broader question. Next comes to mind, I'm sure, on everyone, Well, Steve, the cynics would say, what if CCS doesn't work? Now, that's fair. There is a possibility that it won't work or is a possibility that if there's no price on carbon, why would anyone put it into place in the first place?

The reality is part of our strategy has been from day one to make sure we have optionality so we don't end up on any dead-end street on any one particular fuel or technology, and that's the position TransAlta's in today. So if for some reason we can't use CCS, we can't build new coal plants post-2020, well, we have multiple fuels, we have multiple resources, we have multiple geographies, we have strong cash flow, we have a strong balance sheet. We'll just go put our money into another growth area and continue to move the company forward until those technologies are available.

I would say right now with this optionality, it's very hard for us to go down a dead-end path, and any path we go down we can get back from. Now, clearly at some point you have to use an optionality. But in today's relative uncertainty, the longer we can push it out, the better it is. And as a rule, it gets more certain, the better it is for us to make decisions. And so now we're flexible, but at some point we'll convert that optionality into hard core going forward decisions.

Now, behind all of these strategies and options, there's clearly a lot of moving parts, and there's a requirement for real excellence in execution to deliver on this capability that we have. So I'm sure that raises another set of questions. Okay, you've got a good plan, you've got this good potential, can you actually execute on it? I'd like to ask now, Dawn Farrell, our Chief Operating Officer, to come up, and she'll try to respond to those questions which I'm sure this presentation has generated.

# Dawn Farrell.

## Chief Operating Officer

### MS. FARRELL:

Thanks, Steve. Good morning to everybody. Today my comments are going to take about 35 to 40 minutes, so bear with me because there's a lot to talk about here.

What I want to talk about today is our markets, our operations, and our growth prospects. Now, short term we all know that prices are soft, and for TransAlta this has meant extraordinary discipline on our short-term costs and as well our broader continued focus on productivity.

These actions have really helped support earnings and cash flow here in the short term, and Steve talked about really having a base operation, and I think the team has really been able to deliver that this year.

In our operations we are achieving strong operational performance. We are very pleased to stand here today and report that we've overcome many of the issues that we talked about last year in our coal fleet. We are very much back on track to the 20-year run rate of availability that we've had in that fleet, so that's some great news, and we'll talk about that later in the presentation.

As Steve has talked about, even though prices are low and the economy is down and all the rest of it, there have really never been more opportunities in the market to grow the company with our strategy.

So we believe today what you'll hear from me is that we have the platform, the competitive advantages, the team, and we have the energy to take it all on, so some really good things that we'll be speaking about today.

So what are my questions? The first question, which is on everybody's mind, and it was certainly on the mind of the people at the table last night is, What is TransAlta's view on its core markets, or more simply put, When are prices going to recover? Because that's what we're all waiting for.

So let me start by setting a context. In the past couple years, we've seen some of the highest highs and some of the lowest lows. I mean, we've seen \$80 prices, and last month we saw \$26 prices in Alberta. We haven't seen prices that low for the last ten years.

So that's another way of saying, Well, we have a view, and we have some data to back it up. No one knows where prices are really going to end up. So simply put, prices are going to be what they're going to be, and our team has to be ready for any eventuality. So with that qualification, I'll talk about prices in Alberta, but I'm not going to be held to them when I come back here next year.

I'm going to talk about what we think about specifically in 2011, and then I'm going to fast-forward a bit because I have some very interesting news at the end of this presentation about our plans in Alberta on the growth side, and that's really depending on what we think prices are going to look like in that post-2015 time frame. I'll also be talking about prices in the Pacific Northwest.

So as you all know in Alberta for prices to recover, it's really all about demand. Alberta isn't correlated that much to natural gas, only about 50 percent of the time, and in Alberta, major supply disruptions can really impact prices. A good example of that this year was even though we were in a low pricing environment, in May of this year some work on the transmission system at the same time that we had a number of planned outages in the province, with the sprinkling of a couple of forced outages, caused prices to go over \$100 in May.

Now, the interesting thing is for average annual prices that can have the impact of adding a couple of prices to the average annual price. So when you think about Alberta, you have to think about not only demand, but you have to think about these supply disruptions.

Now, when we look forward in 2011, the major transmission work in Alberta is mostly done, so we don't see that impacting the market, and we don't anticipate a different level of forced outages than what's been there over this last year. Doug has done a great job with his coal fleet, and it is an older coal fleet, though, in Alberta, so you do have to expect that you'll see some disruptions in the market, but we don't expect a different level than what's been there in the past.

We do, however, see much higher demand than was expected. I remember sitting with our forecasters just six months ago who were swearing on a stack of Bibles that Alberta was only going to grow by 1 percent. Fast-forward six months, and suddenly it's grown by 2.8, almost 3 percent this year, and we're expecting it to continue to do that because of the extraordinary activity that's going on in the oil sands, and it's not just what's going on in the oil sands, it's all the ancillary

development that goes along with it. You can't just develop oil sands. You have to build pipelines, and you have to pipe the oil out, and all of that is electricity load. So we expect those kinds of demand levels to continue.

Now, of course you all know that in 2011 supply is also growing. We're bringing on Keephills 3. We'll have a full year of the peakers that were built this year in the market. So even though demand is growing, supply is starting to match it.

Overall, many of you will know more about natural gas prices than I do, but at least from what I can tell and from what our forecasters are telling us, there isn't a big expectation that we'll see a lot of upside from natural gases in the 2011 period.

So for 2011, while we see some forces such as demand helping to firm up pricing, growth isn't sufficient enough to return us back to those \$60 to \$70 prices, at least in the very near term. Of course, the big proviso is unless we see some real supply disruptions, which can have a big impact on the average price over a short period of time.

So for us we are setting our plan, our operational plan as if prices will be averaging in the high 40s and low 50s, and that's what we believe we might have to face next year, so we've set our cost structure to match that. This is really the basis of our operating strategy around costs and productivity.

Now, before I talk about that, what I'd like to do is just talk a little about the long term, because the long term is really important when we think about our growth strategy and what we're really thinking about for greenfield activity.

Demand growth is expected to stay strong in Alberta, and reserve margins are tightening and will tighten. In Alberta prices will respond. Some forecasters in Alberta have prices in the 60- to 75-dollar range starting in 2013. Now, we all know that the prices that are in Alberta today, and even Steve talked about you need at least 60 dollars to bring on new generation, the current prices are not sufficient to attract new generation.

Large projects are difficult today in Alberta to finance, if not impossible, and we are seeing projects that were slated for that 2013 time frame slipping into the 2015, 2016 time frame. So the reality is, as reserve margins tighten and prices are seen to be coming back, there will be possibilities that will open up, and we believe

fundamentally that those possibilities will open up for us because we have an opportunity to really leverage some of our competitive advantages at our sites in Alberta. But more about that later.

So let me now turn to the Pacific Northwest where really it's natural gas and water that determine what you have to think about when thinking about prices in those markets.

Now, water conditions absolutely affect the short-term pricing in the Pacific Northwest markets. What happens in Q2 can determine the average price for the whole year. If you run your models, you can correlate the other three quarters pretty highly against natural gas prices. So for that reason, natural gas prices over the longer term are really the most important way to think about pricing in that market as you go forward in that 2015, 2016 time frame.

Next year in the Pacific Northwest, the impacts of a La Niña year are forecasting to increase overall water supply. Now, I just want to say that I think the dataset for La Niña is, like, two years. So when people say, We know that in a La Niña year there's more water, I kind of raise my eyebrows, because I think we think there might be more water, but we don't really know that.

Nevertheless, what I think and what others think doesn't really matter. What I think actually doesn't really matter, because what the market thinks today is that La Niña is going to deliver a great big water year, and you're seeing the pricing in that market reflect that.

So we're seeing forecasters in the Pacific Northwest market, when they look at 2011, they're looking at prices that are similar to what we saw this year, which is in the 35-dollar range. Again, for TransAlta, we have to go where the probability might lie, and for us to be able to deliver the cash and earnings that is expected from us, we have to set up our operational plans to reflect what we're looking for relative to those lower prices.

Now, long-term reserve margins in the Pacific Northwest are also in decline, but they're declining much more slowly than in Alberta. In the Pacific Northwest if you read the integrated resource plans of the utilities there, they're calling for gas-fired generation in more than 2016 to 2018 time frame, and they're calling for a slower growth than what we see in Alberta, somewhere in the 1 and a half percent range.

Now, as I go through those plans, what's very important

to think about is that those utilities are very much relying on conservation as one of their key resources for meeting their demands.

I would say that they're potentially over-relying on that. One doesn't know what's really going to happen there. Of course, they make investments in conservation, and as well they expect their customers to make investments in conservation. My view is if those conservation investments do not pay off or do not come through, that load growth in the Pacific Northwest markets will be higher than people anticipate, and the need for generation will move closer into the 2013/2014 time frame. So conservation is the real wild card.

If you stand back from that, I guess what you hear me saying is, although we don't like it and although we don't wish it to be so, to be pragmatic and to run the company well, we have to plan as if prices are going to be low in 2011. Our next question is, So what is TransAlta doing to minimize the impact of these soft prices?

But I have another way of thinking about this question, which is really how do we maintain strong earnings and cash flow, still deliver operational performance while cutting our spending? Because as you know in our industry, sometimes cutting spending does not always correspond with the work that you need to do to maintain availability.

So not surprising to all of you, cost reductions are the cornerstone of our short-term strategy, but not just any cost. This is an important distinction for thinking about what TransAlta's doing. Our team has worked hard over the last year to devise a strategy that reallocates costs and resources to the areas where they need it most, and we've had to satisfy ourselves for many, many long discussions and lots of work that any short-term reduction in cost could be maintained over the long term without impacting our operational performance. Every day at TransAlta, that's what we're doing.

So in 2010, we were able to add the Canadian Hydro assets and at the same time found ways to absorb these operating costs. We achieved the synergies that we expected in the deal plus more.

Through productivity and our cost-savings initiatives, we are likely to deliver our 2010 OM&A costs at levels that are at least 5 percent below where we were in 2009, even after we normalize for the major maintenance differences between these years.

Over the medium term, we're going to continue to invest in productivity. We have our organization today focused on hundreds of small ways to streamline work, ways that when we add them together, we believe we can be confident about setting a goal for ourselves to keep our costs flat despite rising inflation.

So really I'm going to talk a little bit more about that as we go through this presentation, but really what the team has been focusing on is how to set a cost structure that delivers the earnings and cash flow that are expected from us but at the same time delivers operational performance from our assets and availability. So if the team that's here today looks a little tired, it's because that's what they've been working on.

I want to look a bit at our hedging strategy. Now, maintaining a disciplined hedging strategy is a key element of our operational strategy. Ever since last year when we were talking about it, we've added a second front. We've added a group that focuses on marketing directly to large industrial and commercial customers. Of course, I also want to talk on this slide to what we're doing with our contracting strategy at Centralia. So let me take a couple of minutes to talk about all of these.

So many of you in this room are familiar with our four-year ladder strategy, and we will continue with this strategy. However, because we're starting to see the bottom on prices, we are going to go to the top end of our limits for staying open in our later years, which really sets us up for the opportunity when prices rise.

Second, we have determined that a second front for marketing power to large commercial and industrial customers in Alberta and the Pacific Northwest is necessary. We've put together a strong team, and today we've secured new customers in Alberta, like 7-Eleven stores, university, and large oil-and-gas companies. So as an aside, this is what you need when you go out for your Christmas parties and you have to have something to say and you've run out, here's something that's interesting: In a hot day in Alberta, 156 stores across 7-Elevens making Slurpees use up to 7 megawatts, which we're selling them, and I want you to tell them about TransAlta is selling them those megawatts.

So it turns out that customers really are glad to have us back in the market working directly with them. We were surprised that we are closing contracts that average 41 months, which was longer than we anticipated, which is a good length. We do expect that many of these customers will renew their contracts with us as we go

forward. For those of you who really know the company well, as we position ourselves for the PPAs coming off in 2020, having this kind of portfolio of customers is really important to our post-PPA strategy.

So finally let me talk a bit about Centralia. You know from last year that we've been working with the Governor and the State to try to find some sort of transition plan that will allow us to run Centralia to the end of its life and then potentially replace the plant with gas and renewables.

I've talked earlier that many of the integrated resource plans of the utilities in that area are calling for new gas to come into the market in that 2016 time frame, but we believe that the hedges that we could sell out of Centralia are lower cost and much more economic for customers and will actually allow some of these utilities to delay some big expenditures on gas in that time frame.

An orderly transition of Centralia from coal to gas and renewables will be good for the economy in that area, it will be good for the environment, but most importantly it would be great for our shareholders. So we really continue to work hard on seeing how we can bring all of that together.

Now, although we are working hard on Centralia, the continuation of the recession in the US, and particularly in the Washington area, they have some large economic issues there, large unemployment issues, along with this recent pull-back on this cap and trade program by the Obama Administration, have really relaxed the urgency on closing a deal this year.

So while the Governor has really remained committed to working with us, we now believe that it will more likely be the end of 2011 and potentially the beginning of 2012 before we can make additional inroads on closing a deal for Centralia.

So what do we do in the meantime? Well, in the meantime the plant is very well positioned to serve those markets, and we will continue our strategy of contracting the plant using our ladder strategy until we have a different strategy in place for it relative to a deal in the state.

I've answered the question of how we're dealing with the markets from an operational standpoint, but what about the impacts to our trading group? I think the big question here coming out of the conference call is,

Should we permanently lower our expectations for our energy trading group, given some of the performance we've seen over the last two quarters?

Today our answer is no, and let me outline how we've come to that conclusion. Steve introduced Rob Schaefer earlier who leads that business and is here with us today, and it's his accountability to drive performance at the current risk portfolio in that business.

Now, low prices and a lack of volatility at the end of 2009 and the beginning of 2010 have strained the short-term performance of our trading business, so the key question really is, Can we count on trading even under low pricing conditions? And you heard me earlier say that we have to plan as if we're seeing low prices in 2011. So what does that mean in terms of what our expectations are for our trading business?

After extensive study of the issue and some changes to the team, our review of our strategies, we still continue to believe that a normal run rate for the business would be in that 50- to 70-million-dollar range for gross margins at the current level of risk, and we don't want to change the risk profile for that business, because this is a risk profile that we've had for ten years and we're very comfortable with that.

Now, under lower prices, we do believe that results are much more likely to be at the lower end of this range, and we need to plan for that, but we still believe that that range is relevant. Now, the bread and butter of that business is really our real-time and day-ahead trading, and those businesses deliver consistently day in and day out despite price levels.

I also want to talk about with trading what it also does in terms of adding value to our business. The trading group at TransAlta uses its knowledge to both inform our asset and hedging strategies and now directly supports our C&I business with our offers to direct customers.

Our trading and commercial groups improve the revenues on our merchant assets by using their knowledge to find the highest volume markets to sell our power into, and this is really important. The team spends a lot of time, when we're selling our merchant energy, not just selling it into whatever Mid-C is doing, but finding ways to potentially purchase transmission, to move power to customers, to find incremental margins in sometimes the three to four, sometimes we've seen in our C&I business as much as \$3 a megawatt hour of margin, but even an extra 50 cents on a large volume of

merchant adds a lot of revenue for TransAlta, and that's what they do.

So we believe that as prices recover, this knowledgeable group, with its advanced models and its excellent risk-management practices, will continue to deliver value to the assets and, as well, the gross margin to the proprietary business.

So we're back on track operationally, and we've been able to readjust our cost structure to suit the current pricing environment. We've even adjusted our hedging strategies out longer term to begin to position for what we're potentially seeing as we go further out into the decade. But what have we done over the last year to drive long-term sustained operational excellence?

In our business, we control costs and we control performance. The trick is to ensure that the operational strategies that we put in place not only keep us low cost, but they ensure operational performance over the longer term.

Now, 2010 was a big year to make that equation work in the coal business. You've been introduced to Doug Jackson -- they call him King Coal around TransAlta. Doug and his team have worked many, many, many, many, many hours this year to both improve performance and drive down costs -- very, very tough equation, and Doug has really made that so, so we're really proud of the work that his team has done.

Last year standing here, our coal availability had dropped into the high 70s, and we were coming through a very heavy period of investment and maintenance that continued into this year. We had several strategies to improve our performance, including asset-by-asset performance plans, resetting maintenance intervals to 24 to 30 months, driving down our maintenance costs for our large major coal outages into that low 30-dollar range by 2012, installing preventative work management strategies for routine maintenance, and really reviving our engineering organization. We had a lot more, but those were the basic ones.

We believe today that our strategies are taking hold, and we feel we're well on the other side of that situation. We are on track to deliver on all of these strategies, and the building blocks we've put in place will sustain availability over the longer term in the fleet.

Now, as we have on this chart, there are three lines of defence. These are really at the heart of any operation.

By combining focused operations with strong engineering talent and best-in-class technology solutions, we can do the following: We can operate well in real-time; at the same time, you saw on our video our ODC, we can monitor the equipment health so that we can get ahead of problems before they happen; and finally when we have issues that we have to solve, we can engineer lower-cost solutions with end-of-life or even life-extension considerations in mind.

So I want to go back for a minute just to some comments that I made on costs. I talked about the need to reallocate expenditures to both achieve financial results and ensure long-term sustainability to the operation. An example is this year we undertook an initiative to replace more expensive engineering contractors with on-site staff. This year we've hired close to 50 strong in-house engineers for our plant engineering organization. Mike Williams, our Chief Administration Officer, who you were introduced to earlier, was instrumental in helping us build this strategy and then deliver the channels to attract the quality talent that we needed for that strategy to work. That is no small feat in Alberta where every engineer is being hired at any time to go work up in the oil sands. So we've been able to attract that talent to our plants, and already the work between operators and engineers is allowing us to proactively manage our equipment more effectively.

So we're well on track towards what I call a reliability-centred approach to maintenance, an approach that when you couple it with our lifecycle assessment work, lowers costs and reduces operational risk.

Now, last year we also told you how we were designing our plans for our coal fleet based on lifecycle assessment studies, potential real changes for greenhouse gases, and optimal time frames between outages. We continue to work hard at this, and you'll see in the appendix some of the results of our work to optimize maintenance schedules across the fleet by looking at our estimates of sustaining capital.

Jess will be available for the analysts to walk them through this, and I do want to just make a note that these estimates are now based on IFRS standards, but there is a couple of points I'd like to make so that when you're thinking about those charts, you can think about what our operational strategy is behind those numbers. First, overall for Sundance Units 1 and 2, we have tailored the spending on those units to reflect the potential life ending in 2017 and 2018. So those units are now set up

as if they will come offline in 2017 and 2018.

Second, while a number of our units are lined up for 24-month durations between events, we've also been able to achieve 30 months for some of our younger units. This gives us flexibility in our planning for unexpected events like what we experienced this year with a generator on Sundance Unit 3.

Third, we've decided to take advantage of the work that we're doing on the uprates for Keephills 1 and 2, and we're going to use those outages to also upgrade the unit control systems. By combining the uprates and new DCS systems, these units will be up to world-class standards for their remaining lives to the 2030 time frame. This is also why our sustaining capital costs are slightly higher than what was reported last year.

Fourth, to take advantage of the workforce, planning efficiencies, and mobilization costs, we are moving the outages for Keephills 1 and 2 closer together in that 2012 period. So in terms of what we've reported to you last year, this does mean that we will be moving the outage for one of the Keephills units out of 2011 into 2012, and that again changes the cash requirements between those two years.

Finally, we've had to add a small outage for Sundance Unit 3 into 2011 to install monitoring equipment so that we can take that unit back to full load until we install the new Stator in 2012. This outage overall has a small impact on our overall cash requirements for sustaining capital in the coal fleet over that three-year period.

So when you put all of that together, we've moved a few things around, we've done it using our risk-management metrics so that we know that we've done it very sensibly and given all the knowledge that we have on the fleet. Overall it means about the same spend over that three-year period, but there is an incremental small amount of capital as we've had to take this additional outage for putting monitoring equipment in on Sundance Unit 3.

Now, the other thing that's important to note about 2012, it's also a big year for gas. In 2012 we have a number of large C inspections and a number of steam turbine turnarounds that have to be done in that year. Colin Mills, who heads up our gas fleet, is here today, and he'll be busy in 2011 getting ready for 2012. But once he's finished, he'll be back on easy street, so we have to find him some more work, and more about that when we talk about our growth.

We've also initiated the repowering work that goes along with our hydro fleet. We expect to invest roughly \$350 million over the next ten years in our 800-megawatt hydro fleet to set it up for the next 40 to 50 years. At approximately 400 to 500 dollars a kilowatt, this is a great deal by any measure. This will start with the replacement of the penstock at Pocatererra.

This is the first unit to come out of the PPAs, so this expenditure could really be considered growth because it will set that unit up for another 40 to 50 years of service. Cynthia Johnston and her team are spending a lot of time figuring out how to deliver these capital improvements at low cost with high performance outcomes.

Finally, the sheer magnitude of a thousand-megawatt wind fleet now allows us to step back and choose an operating model for the fleet. That work will set us up to be the lowest cost and most reliable operator of wind turbines over the next decade. Cynthia and her team are busy on the analysis for what that model will look like and will have likely something to say about that when we come back next year.

So 2011 and 2012 are really a continuation of our low-cost, high-performance model with some sprinklings of projects that set our units up for strong performance over the longer term. So that's our operational story.

Now I get to talk about growth, which is the exciting stuff that we love to talk about at TransAlta. So what's next when we think about our growth?

We believe the time for adding new greenfield generation on the grid is aligned in the post-2015 time frame. Now, it turns out that in the world of developing and building power plants, particularly gas-fired power plants, 2015 is actually not that far away, and you have to start making decisions today.

We'll continue to work the greenfield opportunities that we told you about last year, wind in Saskatchewan, geothermal in California. These projects have moved out a bit, just in terms of what governments want to do and how the RFPs are being run. We still believe that they'll become important parts of our portfolio in that 2013, 2014 time frame.

In fact, our portfolio and our pipeline is full of opportunities for this time frame, and we continue to keep opportunities alive, such as Dunvegan in our portfolio, so that they can be built once demand and

supply get more aligned.

Our spending, our actual cash outlays on these opportunities during 2011 and 2012 are really limited to permitting and getting us ready to purchase equipment at the right time. I'll talk more about acquisitions just in a couple minutes.

Because right now we have something new to talk to you about this year, and I think it's pretty exciting news. At least I'm excited about it. Our most important project for the 2015 to 2017 time frame is a large combined cycle plant at our Sundance facility, a site where we believe we have a competitive advantage over all the other generators in the province.

In the summer of 2010, Federal Environment Minister Jim Prentice announced the government's intention to regulate emissions from Canada's coal plants. Today Ottawa is driving forward to finalize the regulation in 2011.

We do expect that any associated transition costs of this regulation will be fully addressed by governments to protect the investment climate that goes along with energy development in Canada. As a result of this announcement, TransAlta has begun preliminary engineering, design, and environmental work to allow TransAlta to reinvest these recovered costs to build a state-of-the-art, up to 800-megawatt natural gas power plant near our existing Sundance facility. We call this new project "Sundance 7," very innovative name.

We expect Sundance 7 to leverage existing infrastructure, staff, transmission, jobs, the site, our water licences, and workers to maintain an adequate supply of power generation in Alberta. Our work began yesterday with the filing of the interconnection application to the Alberta Electric System Operator.

Our construction of Sundance 7 will facilitate the orderly transition from older coal sources in Alberta to lower carbon power generation. That is until the full deployment of CCS makes new coal viable again.

So with our greenfield work aimed at the middle of the decade, what about our short-term work on growth? What about the next two years? Well, again, our pipeline is deep. However, the competition is fierce. Many of you are starting to see some of the returns that people are bidding on acquisitions. We are seeing competitors bid projects with returns that we're not comfortable with.

Brett is going to update you on his expectations for returns from the growth portfolio. My job is to make sure our teams find a way to add value to acquisitions so we don't end up with projects that either only have downside or some sort of orphan in our fleet.

So the key question here is, Why can TransAlta capitalize on growth opportunities better than our competitors? Well, you can see by this chart that we have lots of ways to add value, and we do compete well in the market against our competitors, but we have some additional drivers.

If we add wind and hydro to our fleet, we get big operational advantages, so we're actively evaluating many of those kinds of projects. If we add gas to our fleet, it gives us much better positioning with the OEMs, because the big game in gas is all about parts.

We do believe that we should continue with assets to diversify our risk away from carbon, and it's a key strategy as we're looking at a variety of acquisitions, and we also believe that if we can add assets in the US to firm up our market strength in the Pacific Northwest, that that should be a key area of focus, and particularly as we're doing more work with the local utilities there through our C&I business and really attracting them as customers of TransAlta.

So whether it is preparing ourselves for the next wave of growth in the post '15 period or evaluating acquisitions, growth is still a key important cornerstone of our strategy.

Overall I'd like to conclude by saying that we've had a strong year operationally. We've met the challenge of low prices head on, and we're positioned from some great opportunities that come up in markets like this.

Like many of you, I believe we are well positioned for an upturn thanks to the hard work of the people in this room, many of who you met last night, but many who are back at the ranch doing lots and lots of hard work so that we can be here presenting to you today.

So with that, we'll take a break before the finance presentation and the Q&A final period.

(ADJOURNMENT)

# Brett Gellner.

## Chief Financial Officer

### MR. GELLNER:

Good morning, everyone. I'm Brett Gellner. Before I begin, I also want to acknowledge Frank Hawkins. I've known Frank for just over ten years, the two plus years I've been at TransAlta plus prior to that in my time at CIBC. During that period, he's been a great client and more recently a great partner. So, Frank, I want to wish you and Leslie all the best in the retirement.

What I'm going to do is I'm going to answer five questions, and I'm going to cover and address what our financial investment strategies have been and what they are, are they working, what our cash flow potential is, and what our cash allocation looks like over the next few years.

So the first question I'm going to address is, Has our financial strategy changed? As you can see from this slide, our strategy remains the same in that it continues to be based on three key principles: First, being disciplined on how we allocate our capital; second, maintaining financial strength; and third, generating solid returns. So just in terms of capital discipline, we're going to continue to be disciplined in allocating our capital and cash flow between dividends, investments, and maintaining our credit metrics.

We also use a portfolio approach when we assess opportunities and their impact on the company, and I'm going to talk a bit more about this later in my presentation. In terms of financial strength, our objective is to maintain a strong balance sheet and financial flexibility so that we're well positioned to pursue opportunities throughout the commodity cycle.

We demonstrated this when we were able to acquire Can Hydro back in 2009. Finally our strategy is designed to increase returns and cash flows while maintaining a low to moderate risk profile. Clearly to create value, our investment opportunities must generate returns above our cost of capital. We're targeting unlevered after-tax returns in the range of 200 to 400 basis points above our cost of capital, and that range is really going to reflect the risk profile of the opportunity that we pursue.

Another logical question to ask us is, Has our strategy of

investing in a diverse set of assets created value? From our perspective, the answer is yes. Diversification combined with our approach to contracting, that Dawn spoke about, has not only resulted in an increase in our cash flow over time, but it's actually reduced our volatility.

As you can see from this chart, our funds from ops have steadily increased even though power prices, which are shown by the orange line, have been much more volatile. So, for example, our FFO in 2010 is going to be in line with what we achieved in 2008, even though power prices in 2008 were substantially higher than what they'll be this year.

We've been able to grow our cash flows by adding higher margin assets, improving productivity, managing our costs, and through our contracting and hedging strategies. Just in these next two slides, I'm going to talk a bit about how our strategies have reduced risk and enhanced our returns.

So what you can see from this chart is our wind assets in a typical year generate higher production during those shoulder months of the year. Our hydro assets, on the other hand, tend to produce more during the spring and summer months, and then our base load plants, which are coal, geothermal, gas, tend to be much more steadier over the year, except when we have our planned outages, and we actually try to take those planned outages during months when the power prices are traditionally low.

So as a result, you can see that the variability in production of any one generation type is actually higher than the portfolio as a whole. So by investing in multiple generation types in multiple regions, we've been able to reduce our risk, and this is shown in the standard deviation chart at the top there.

Another way to think about how we use a portfolio approach to manage our risk and returns is the efficient frontier. As I noted, our objective is to increase returns while maintaining that low to moderate risk profile. We've been able to increase our returns in a few ways. To give you an example, we've added higher margined renewables to our fleet, not just with the Can Hydro transaction, but what we're doing in New Brunswick and elsewhere.

So on a year-to-date basis, our renewables now represent 23 percent of our gross margin. This is up from 17 percent from last year. And that 23 percent

would have been even higher had we seen better wind production in the first quarter of this year.

We've also improved our returns by renegotiating contracts such as Sarnia, improving productivity, and diversifying the portfolio. When I talk about portfolio diversification, it's not just with respect to production, as I showed on a previous slide, but it's also in terms of geography, technologies, asset ages, contract lengths, and counterparties. Being diversified not only reduces risk, but what it does is gives us a broader platform from which we can grow.

Now longer term, when those PPAs revert back to TransAlta, we'll continue to move up the return while staying within that low to moderate risk profile.

So here's a question I get asked once in a while: How should we be valued? Internally when we're looking at any opportunity or valuing the company, we focus on cash flows, and we do this because it takes into consideration the value and timing of any tax benefits. It also removes any non-cash accounting items.

Furthermore, for the company as a whole, our cash flow approach captures the longer-term value associated with our Alberta PPA plants, and I'll touch a bit more on that a little later on. So you can see on the chart here on the left, we generate substantially more cash flow than our earnings because of our cash tax position and depreciation levels.

As you know, one approach to evaluating companies from a cash flow perspective is price to cash flow. As the chart on the right shows, we trade at a discount to a lot of other companies in the electric and infrastructure sector both in Canada and the US. So when we look at this metric, our dividend, and our long-term cash potential, we believe we're an attractive investment.

Another question we get asked is what is our cash flow potential? I'm going to talk a bit about the near term and the longer term, but first just some history here.

You can see that we've been able to generate strong cash flow throughout the cycle. So what we show here is the total bar is our FFO, and then we deduct the sustaining capex in dividends. What's left over is what we can use for growth and shoring up the balance sheet or debt repayments.

On the right in terms of the dividend when you take our cash flow less our sustaining capex, our dividend is well

covered, and we've been in that two to two and a times coverage over the last few years.

Just on the short-term opportunity on cash flow. We're able to generate solid cash flows during challenging markets while providing our investors with an attractive dividend and upside to power prices when they do recover. Both Steve and Dawn talked about how prices need to go up to invest in the fleet or in the industry.

This chart shows the potential upside in EBITDA in the near term from an increase in power prices, and again it shows you pick your price, but you can see there's a significant increase at the various prices. This is based on an average of the next three years and assumes typical wind and hydro resource conditions.

We'll also generate upside from any additional growth we pursue. During the last ten years, we've added, on average, 200 to 300 megawatts of new capacity per year. Based on a continuation of that rate of growth, we have the potential to add 40 to 80 million of EBITDA per year depending on the opportunity, the returns, and the timing of those opportunities.

Back to this plus the longer term, just back to our rates of return and expectations, so things like Sun 7 that Dawn spoke about, we will evaluate those opportunities as standalone opportunities, and we will look at the returns, and they have to meet our required hurdle expectations, but it's no different than our wind assets or our repowering of our hydro assets. We'll put it within those criteria.

Now, in terms of the longer term -- and Steve talked about this a bit -- we currently generate about a billion dollars in EBITDA. When those PPAs revert back to TransAlta, we could potentially more than double that EBITDA, and that's just in 2021 alone, in one year. So under the federal proposal of 45 years, our PPA plants will generate significant incremental EBITDA between the years 2018 and 2029. 2029 is the year when our youngest PPA plant reaches its 45-year life.

So as you can see, we have the potential to accumulate a significant amount of incremental cash flow from the PPA plants during that period, and we can redeploy that capital into new investments -- again, back to that chart Steve showed -- in terms of replacing our coal fleet or adding new generation to satisfy the growth in the province.

So this chart, I just want to point out, doesn't include the

incremental EBITDA that we're going to accumulate as well from our other plants that we have in the fleet or from any other further growth that we'll achieve from now till 2021.

So the final question I'm going to cover is, How are we going to allocate our cash flow over the next few years? So as shown, we estimate we'll generate approximately 700 million of free cash flow over the next three years. As most people know, we've come off a huge growth program, but this 700 is available for other growth or debt repayment.

So after paying the dividends, distributions, investing, and sustaining capex, that's what's we're left over with. In addition, if required, we're also prepared to access the capital markets for the right opportunities. We, again, showed this when we acquired Can Hydro. We'll finance those opportunities within our targeted credit metrics. Right now we believe we can access obviously the debt market, the equity market, and, in Canada, the preferred share market has been a very active market for a number of those in the industry.

So with that, I'm going to end and turn it back over to Steve.

# Steve Snyder.

## President & CEO

### MR. SNYDER:

Thanks, Brett. I did think here it would be appropriate to end the formal part of the presentation with I guess what is the most fundamental question of all that I get asked, and it should be asked, and it's maybe the fairest question of all to ask, and that is, Why would anyone own the stock today and why would they own it tomorrow?

Hopefully during the course of the presentations, you've seen much of the reasons why I would say you should, but let's just look at today, as we sit here today, and what does TransAlta offer?

Strong yield and growth opportunity supported by the free cash flow that Brett just discussed. That's not changing today, it didn't change yesterday, it won't change as we go forward. We will have a strong yield, and we will have good cash flow, and we do have a lot of growth opportunities.

We have diversified fuel and geographic opportunities. We've acted on those in the past few years, but the reality is, there's more opportunities in front of us than there are behind us, and so excellent opportunities.

And we continue to focus, as Dawn said, on operational excellence and cost control. As you see, our focus here is to get that even better, as we go forward, to be top in class. So a great position to be in, I believe, today.

So why tomorrow? What will change in the coming years that would say, This will be a stock you will want to not only buy today but you want to hold for tomorrow?

Well, first, there's going to be market recovery. I don't know when, but as we all sit here, we know that will happen; the market will recover. The PPAs will expire -- it has to happen -- and the opportunity will be there for us to capture upside, whether it's for one year or ten years, it's a lot of upside.

We have renewable growth, and it's now a core strength at TransAlta with over 25 percent of our capacity in renewables and constantly growing. It will come from gas-fired generation, starting with Sun 7 and other

facilities in the future. Again, here we're building on real core strength at TransAlta.

We're one of the first companies in Canada to be in cogeneration gas capacity, and we have extensive experience in some of the largest, most complex plants in Canada. We know how to run gas plants. With Colin and his team, we know how to do it well.

Of course, we have the opportunities coming to us out of new technologies, particularly CCS, and, again, TransAlta has an early leadership role in this whole area. I think, to me, those are the reasons why I would want to own the stock today, why I'd want to own it for the long haul. I think behind all of this, honestly, is we do have an excellent team at TransAlta, and we have a group of employees who are dedicated, keen, and want to execute on all of what we've see above.

You saw some of that come through in 2010, as Dawn indicated, the tremendous work that Doug and his team did to get our coal plants back on side, the tremendous work that Colin is doing to ensure that our gas-fired plants have a great plan for 2011 and 2012, and you saw it in Cynthia's work as she absorbed Canadian Hydro, took all those costs out, and continued to grow the business. By the way, all of our wind projects, on time, on budget, really superb execution. We see that throughout all the company.

There's uncertainty in today's market. It's going to be followed for sure by exciting potential. I think TransAlta is particularly well equipped to deal with that uncertainty, whether it's through our cost control or through all the optionality that we built into the company, and I certainly see the potential to take advantage of the markets as they improve and deliver a huge amount of shareowner value to all of our shareholders.

At the end of the day, that's why I would make the case, this is a good company for the short and the long term and particularly the long term.

On that note, those are the 15 questions that Jess and his team felt were on your minds. We may have missed one or two. Now is the time to ask those one or two to get clarification.

# Q&A.

**LINDA EZERGAILIS:** Thanks, Steve. I know it's early days with respect to your discussions with the government on your coal fleet, but to address the supply shortfall and extend the usage of your coal plants beyond the PPA, you would potentially be walking away from the decommissioning costs that you would be reimbursed for, and on the flip side, there's obviously this upside to extending the life of your plants.

How might we think of potentially negotiating with the government an ability to recoup decommissioning costs from the citizens of Alberta and/or any stranded costs that you might have invested for a life beyond 45 years?

**MR. SNYDER:** Okay. Good question relative to the 45-year rule. The principles we established at the federal level of government in supporting the 45-year rule was to the extent that we had stranded costs in those facilities as a result of the 45-year rule that they could be recouped as part of this change in law.

The mechanisms to do that are still to be worked out, because the final regulations aren't obviously finished yet, and it does require negotiations between the federal government who will pass the legislation, and the province who owns the resource.

But both the Province and the federal government have agreed in principle that companies who go through the 45-year rule should not have stranded costs. So we have to work out the mechanisms for that, but I believe the intent is to do that. I believe that will happen. There should not be any stranded costs in those facilities.

The flip side, for us, is that we have, because of the sites, those sites have huge intrinsic value. They're already permitted, they already have, as we mentioned earlier, access to transmission, gas, water, infrastructure services. We feel that any gas plant we build on that site to replace a coal plant will be the most cost-effective plant in the Alberta market and would be a standalone good investment on its own right.

It is quite separate from the two, so I just want to be clear they're not linked. It's our decision. The government says you must close, and you won't be left with stranded costs. Our decision then is: Do we want to replace that power or not? And we will make that

decision based on its own economics.

Right now, as Dawn said, our economics show if we were to build Sun 7 on that site it would be cost effective and will be a great investment for our shareholders because it's replacing volume, it's not adding to capacity, and we could be lower cost than anyone that would come into the market between now and then or even after that.

In terms of beyond Sun 1 and 2, it is unclear right now. There's still some work to be done on will the 45-year rule - just be flat and go on for ten years, or will there be some adaption beyond 2020, given the current economic situation? I think that's a bit up for discussion still.

**LINDA EZERGAILIS:** Just as a follow-up question with respect to Sun 7, what would be Dawn or someone's estimate as to the cost savings of building on a brownfield site, Sun 7, versus a greenfield plant?

**MS. FARRELL:** Yeah. We're not going to tell you that. It's competitive information.

**MR. SNYDER:** Yeah. I would say it's substantial. It's not a low figure. You just think about what it would cost to put in transmission lines, piping, and all that stuff, you can get into the tens and tens of millions quite quickly, and we should have minimal of that side. So it's enough that it may give us an advantage, for sure, and given the price of gas, it would be about the same for everybody.

**LINDA EZERGAILIS:** Would the thinking be that it would be merchant plant, or would there be some contracts underpinning it?

**MS. FARRELL:** When we talked about our strategy today of setting up our C&I business, there are customers in Alberta that need 150-megawatt loads in order to run their pipelines to take oil from the oil sands, so those are the kinds of customers that we'd be looking for to put up against that plant.

**MR. SNYDER:** Just on that, this question comes up a lot relative to post-PPA and contracting. Our view currently is that most of the customers we have are large customers to the utilities or wholesale customers, all of whom need long-term security on their cost side, so the natural tendency is to have a long-term contract for power.

I doubt if it would be 15- or 20-year contracts, but I don't see any issues with five- and ten-year contracts and maybe even beyond that. I think the combination of our C&I business and the natural tendency of this industry to want longer-term contracts, while it will be technically merchant at the end of the PPA, we'll replace that with a laddering of contracts, which I think will be net-net about equivalent to what we have now.

We're already building a base besides the C&I business. Most of the renewable business we're building now is based on 20-year contracts, so I believe by the time we get to 2020, net-net, it will be arranged differently. Our amount of contracting of our portfolio will be about the same as it is today, just be in a different format.

**ROBERT KWAN:** So, Steve, you mentioned earlier talking about maintaining as much optionality as you can in your various business, and then, Dawn, you also mentioned with respect to large-scale gas plants that there's some trouble financing pushing out to 2015. I assume that's just you're talking about Shepard.

Can you help reconcile maintaining optionality with respect to Sun 7 and why you might not just bring your financing ability to Shepard, which is basically pretty darn close to being a fully permitted plant?

**MS. FARRELL:** So the question is, why don't we just go partner with ENMAX?

**ROBERT KWAN:** Correct.

**MS. FARRELL:** Well, I mean, in order to partner with ENMAX, you have to have ENMAX want to partner with you. I think that in terms of the site value that we see at Shepard, potentially there are some discussions that we could be having with them about whether or not a partnership in Alberta is the better way to go for both of us. Certainly we'd be open to that, and there is a possibility there.

But at this point we just wanted to be very clear that we believe fundamentally at the Sundance site, and we can show that there's some really good competitive advantage there, and we've really got to get working on making sure that we've got that site ready for that time frame.

**ROBERT KWAN:** I guess with respect to maintaining options, would a partnership at Shepard, if it was open to you, would that be preferable to Sun 7?

**MS. FARRELL:** I think we'd have to look at it pretty seriously, but at the same time, one of the key things that we know in TransAlta and have always had as a principle, is that if you've got the lowest cost assets in the market, you can make it through times like this. So a key part of our strategy is to be very low cost. So is it an option to partner with ENMAX? Absolutely. Is it an option to talk about their Shepard plant? Absolutely.

But does that detract from our desire to get Sundance 7 permitted, ready with equipment, ready for that time frame relative to things that are going on in the market? No, we'll continue to build that option and have that option as well.

**MR. SNYDER:** I think Dawn's statement is fair. When Dawn was talking about her forward price curves, we have assumed that Shepard gets built independently, and we are making our decisions on that basis.

**MS. FARRELL:** Yes. The curves that we've shown you on the charts and some of the numbers that we've been talking about in Alberta all assume that Shepard gets built, and then you still continue to see requirements for supply, particularly if Sun 1 and 2 come off, you're going to need both plants. I think some of it is a matter of timing. A lot of it is making sure you've got the right customer base to support the plant that you want to build.

**PETRO PANARITES:** Thank you. I'm just looking at your chart where you quantify the incremental EBITDA resulting from the reversion of production back to you related to the Alberta thermal plants. First of all I just wanted to clarify, is that sort of the life-extension scenario, or is it a range of all the options that you have, and secondly, is there a corresponding cost range to go along with that incremental EBITDA?

**MR. GELLNER:** Yeah. The EBITDA is just standalone EBITDA, so it's just taking those incremental gigawatt hours times those various prices, and it does include our hydro assets, remind people that our hydro assets, too, are also under similar type PPAs, different kind of construct.

In terms of the capital, clearly that's within the 45-year life scenario, and we feel that the plans that we're undertaking today will sufficiently get those plants to those ages. Over time we'll obviously monitor that and modify it, but remember that's the EBITDA component. The capex would obviously show not on the income

statement but on the cash flow statement, but it's a good point. But we will continue to maintain those plants clearly to get them through to the end.

**MS. FARRELL:** Yeah. We have right now the right to run those plants for 45 years without incurring additional greenhouse gas costs, and then in Year 46, if we want to continue to run them, we have to achieve a greenhouse gas reduction level that's equivalent to a gas plant. So the plants can continue to run past age 45; it's just that we have to find a way to offset the greenhouse gases at the site.

So the EBITDA numbers that Brett showed incorporate the capital to run the plants to the end of 45 years. They do not incorporate any additional capital if we decided to take the plants beyond 45 years, and of course if we decide to take it beyond 45 years, we have to incorporate the costs of CCS. They are not those scenarios, and that would be a different set of numbers.

**PETRO PANARITES:** Just one follow-up: Given your long-term view for Alberta power price and the requirement for at least 65-dollar power prices to attract new capacity, do you see any opportunities in the current gas price environment to fix your gas prices longer term in one way or another?

**MR. SNYDER:** Maybe I'll start, and Dawn has done a lot of work in this area. So the simple answer is, we think there are some opportunities. We are pursuing them. I think the challenge initially is that, as you well know, the natural gas industry is not used to that. Their history is short term.

So when we go talk to them initially, and we say we want to talk long term, the difference is they think 12 months is long term, and we think 12 years is short term, so a bit of a gap. Having said that, the shale gas is such a game-changer, being more of a manufacturing style of business than an exploration business, that they're increasingly seeing the need to match maybe their capital cost to contracts.

So we do see some opportunities. We are looking at that, but I can't say that the industry is quite moved to the point where we have the ability to close on those things.

**MS. FARRELL:** Yeah. First of all, when you talk and have extensive discussions with the natural gas industry, they absolutely recognize that everywhere else in the world

outside of North America, gas is contracted for 20 to 25 years for power plants or for long-term facilities, and that's the way that it's done, but when you get to North America because there is an index, and because many of their stock prices trade relative to the price of natural gas, as soon as they start to sit down with you and want to do a 20-year or a 15-year contract, ultimately you always come back to they feel that they have to find some way to capture what the market price is as you go through the time frame, and of course that just ends up back with, Well, why don't we just buy in the market when we get there?

So far we haven't been in a supply situation yet where it's compelled anybody to say, Wait a minute here, if I don't close a price, I can't produce, and all this gas is going to be left sitting in the ground doing nothing for a long time.

It really depends on how real the shale gas is. If it's as real as they say they are, they will get to that time where they'll be thinking that way, and there are going to be some opportunities, but so far today enough of the supply hasn't come online to compel any of them to really take that step.

**MR. SNYDER:** So we will have to find a way to mitigate the gas price risk in Sun 7 before we finalize that, to some extent, and that is something we're working on. I think that will happen. I think the industry will go into it slowly. They're not rushing to do it, but they recognize they have to do it. No one wants to be the first, I guess.

**MATTHEW AKMAN:** Hi. Matthew Akman from Macquarie. My question is on an update on the development projects that Canadian Hydro had underway when you guys bought the company.

They had several development projects. Some of them are actually fairly near term or were near term in Quebec, for example. Others, longer term like Dunvegan, and then I think in their dying days they kind of suggested or indicated that they had some things in the filing cabinet that they hadn't really talked about. I'm just wondering if you can give us an update on where you are with some of those projects, whether you intend to pursue Quebec, and whether there was anything in that filing cabinet after all or nothing was there.

**MS. FARRELL:** We are in the process now of continuing the developments in Quebec, and we will be making

decisions in the short term about whether or not we want to be the investors in the Quebec project or we want to do something else with those assets.

They're good projects, but we've got return considerations that we have to meet, and we have to be able to make those projects stand up to those return considerations.

On Dunvegan, we continue to work on that project. We are adding about an extra year of geotechnical work to the project. As you know with hydro, if you don't get your geotechnical studies as precise as you can get them, there can be a lot of long-term issues, so we decided to take a step back, do another year of geotechnical work, which really puts that project more in that 2015, 2016 time frame.

Dunvegan is 100-dollar-plus resource, so it's likely a little bit too early for the market in that time frame, and the challenge, always with those projects, is to either find ways to attract customers to that or to blend them. You've got to create a market for that. It really potentially relies a lot on a carbon price for that kind of pricing to come into the market. But in the meantime we want to have the option of doing that project when the time comes for it, so we continue to work the permitting, the geotechnical studies, and really get it ready.

As far as the other things, there are other things in the portfolio that we're working on. Some of it is hydro in British Columbia. Some of it is looking at whether or not we should bid some of those projects into their -- whatever they have as a fit tariff, and the team continues to look at those.

So overall a good quality set of projects, and the challenge is making sure that when we bring them across the line, they come to the standards of the returns that we expect for the TransAlta fleet.

**MATTHEW AKMAN:** Thanks. As a follow-up to that, I'm wondering if you guys -- a lot of companies have disclosed that they bid into the Quebec standard offer, the smaller projects-- and I'm wondering if you guys were involved in that or just focused on the ones that Canadian Hydro had?

**MS. FARRELL:** No, we were not involved in that, and we are focused exclusively on the projects that were there with Canadian Hydro.

**MATTHEW AKMAN:** Okay. Thanks.

**MR. NIEUKERK:** I just have a quick question from the webcast audience from Chad Friess at UBS.

While significant demand growth in the oil sands is forecasted, much of it involves the construction of captive cogeneration facilities for the production of steam at SAGD facilities while the excess electricity is sold back into the grid. To what extent do you expect this trend to be an offsetting head wind to a tighter Alberta power market?

**MS. FARRELL:** Yeah. That is the case. We have built estimates of those loads being served by cogeneration into our forecasting, so when we think about the economics of Sundance 7, we've accommodated for those kinds of cogen projects.

I think it's worth noting that there's cogen projects. What we know is that many of the producers tend not to be comfortable with merchant power coming out of their cogen facilities, so they tend to size their projects to their steam loads, and there's not a lot of extra megawatts that are coming out of them. At least that's the trend that we've seen.

So when you're doing your analysis on that trend, you really have to look at whether or not they set up the cogeneration facility to have excess power, or they just size it relative to the size of the steam loads and the power requirements of that plant. Our forecasters do a lot of study of that area, and they have a lot of views on which projects we'll put in which cogeneration facilities, and then overall we incorporate that into our pricing scenarios.

**JUAN PLESSIS:** Thank you. Juan Plessis, Canaccord Genuity. You spoke on some of your development opportunities, and you had a slide up on your acquisition potential. Could you tell us what your preference is for acquisitions versus development opportunities at this point of the power market cycle?

**MS. FARRELL:** Well, we've seen in our industry development projects both greenfield projects and brownfield projects. Particularly brownfield projects like Sun 7, where you've got some sort of competitive advantage, we have seen over and over again where the returns on those kinds of projects are generally higher than what we see in the acquisition world. Because when you get to an acquisition, typically a lot of the risk

is taken out of them. The construction is finished, the financing is finished, and really you're buying cash flow. Often in acquisitions, unless you can find a way to add value to that cash flow, it's tough to get the kinds of returns you're looking for.

So when we look at acquisitions in the short term, our key criteria is how do we take the secure cash flow that often comes along with those projects, and is there ways through either synergies in our own organization or economies of scale that we can get to add an extra point or two so it's worth us acquiring that asset. Of course, the trick is to bid those acquisitions in such a way that you keep those returns as opposed to you bid them away and give them to the seller.

So as I spoke about in my speech, because Cynthia has created quite a competitive advantage with a large wind fleet, probably there's very few people that have that size of wind fleet. We can see opportunities to add value by bidding on wind.

There is good opportunities on the gas side, because the big challenge there is always parts costs, and if you have more parts that you're buying, you have more leverage in terms of pricing. So we look at those kinds of things to see how to get those returns. But frankly, Rob passes on 90 percent of the things that we look at because fundamentally you'd just be buying cash flow, and that might be the best cash flow you're ever going to see on day one, and so we tend to pass on those kinds of opportunities.

**UNIDENTIFIED SPEAKER 1:** I think you mentioned during your remarks that 50 percent of the Alberta price scenario is set by gas. Traditional thinking has that certainly at the margin at 100 percent, so could you just elaborate or explain, please, or clarify your views on that.

**MR. SNYDER:** Yeah. Dawn, I think you had in your presentation there. Why don't you make a comment, and I'll talk to it.

**MS. FARRELL:** Yeah. We back that up with a lot of statistical analysis, so if you look in the Pacific Northwest markets, power prices are correlated with natural gas about 90 percent. If you take out the effects of the water in Q2, power prices trade almost 100 percent with natural gas in the other three quarters unless there's a supply disruption, unless there's some big outage that happens or a transmission disruption, and you can actually statistically take that aberration out of the

models and see where that correlation comes from.

When you do that same kind of study in Alberta, the actual correlation factor is only 50 percent and sometimes less, and the reason is that if everything's running in Alberta and demands are fairly low and the world is working up the marginal cost curve, then when the gas comes on, the gas price sets the price, and you see that in a number of hours.

But if you have two days ago where a couple units come off and it starts to get cold, you get 500-dollar hours, and they have nothing to do with gas prices. Gas prices are \$2.50 or \$3.00 or whatever they are in the spot market that day.

So in Alberta over the course of the history of the market, we've never been in a period ever where you've had a high correlation between the gas price and the electricity price, so that's the phenomenon.

**UNIDENTIFIED SPEAKER 2:** Hi. Can you talk a bit about the credit metrics going forward, because at the time of the Hydro acquisition, it deteriorated slightly. Do you want to go back to the recent levels or you want to stay where you are?

**MR. GELLNER:** Yeah. We present in the appendix what our credit metrics are, and we're focused on a band within our three metrics that we measure.

Clearly we want to maintain that strong balance sheet for the reasons I discussed, because during these market conditions, we want to be able to generate strong cash flow but also be well positioned to grow, and you can only do that if we have a strong balance sheet.

So I think you'll see us improve those, and that's our objective here is to get back up after the Can Hydro. We knew going into the Can Hydro that we'd be moving down to the lower end of those metrics, but we also recognize those assets had long-term contracts with very strong counterparties, so different risk profiles than some of our merchant fleet.

But, yeah, there's no question we want to move that back up. That's back to that capital allocation I talked about, really balancing between growth and the balance sheet.

**UNIDENTIFIED SPEAKER 3:** Steve, you talk about CCS in a cost perspective on a cost-per-megawatt-hour basis.

I'm wondering if you could touch on the revenue potential of CCS, and from a very high level, how you would see a revenue model working out and TransAlta's involvement in that revenue model?

**MR. SNYDER:** Well, part of the revenue stream would be, effectively, the price of carbon. One is to sell it for enhanced oil recovery, and that's sort of a market price based on the individual producer and the potential and what they're willing to pay to get that oil or gas reservoir out. And the other part is the actual price of carbon which offsets a cost we'd pay otherwise effectively as a penalty for producing.

So clearly to make Project Pioneer work, it assumes a revenue stream for that CO<sub>2</sub>, so if there's no price of carbon, that revenue stream is lost and puts a different focus on the economics, then it's really up to the two governments to decide, do they still want to proceed on that basis and fund it despite that lack of revenue. So that's the decision to be made further out once the FEED study is done.

So I think a lot of whether it be renewables or the new technologies, all ultimately need two things: One is a lot more price transparency for consumers so they could make logical calls on what they're going to do, whether it's conservation or changing habits, or paying for their power, what type of power they want, and the other is the price of carbon to allow these technology projects to go forward.

So right now, do we have uncertainty? We hope by the time we get through the FEED study that they'll match up. If they don't, it may cause a delay in the project. But that will be really up to the government, so they'll have to make a decision at that point, and I don't think they're prepared to make it yet.

Any other questions from the group here while we have the attention of our audience?

If there aren't any, we'll call the Investor Day to a close but indicate that the senior team plus, of course, some of the other members of the management team will be available. We'll be staying around. There's a lot of chance here, if you have individual questions you want to see, please feel free to partake of those.

So thank you for your attendance. Thank you for your support. We appreciate it, and we hope we've been able to answer the questions that you've had today. Thank you.