FINAL TRANSCRIPT

TransAlta Corporation

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PRESENTATION

Operator

Good morning. My name is Kelly, and I will be your conference Operator today. At this time, I would like to welcome everyone to the TransAlta Corporation Third Quarter 2018 Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the prepared remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Thank you.

I would now like to turn the call over to Sally Taylor, Manager of Investor Relations. Please go ahead.

Sally Taylor — Manager, Investor Relations, TransAlta Corporation

Thank you, Kelly. Good morning, everyone, and welcome to TransAlta's third quarter 2018 conference call. With me today are Dawn Farrell, President and Chief Executive Officer; Brett Gellner, Chief Financial Officer; and Robert Millard, Vice President, Regulatory and Legal.

Today's call is webcast, and I invite those listening on the phone line to view the supporting slides, which are available on our website. A replay of the call will be available later today and the transcript will be posted to our website shortly thereafter.

As usual, all information provided during this conference call is subject to the forward-looking statement qualification, which is set out on Slide 2, detailed in our MD&A, and incorporated in full for the purposes of today's call. All amounts referenced during the call are in Canadian currency unless otherwise stated. The non-IFRS terminology used, including gross margin, comparable EBITDA, funds from operation, and free cash flow are reconciled in the MD&A for your reference.

On today's call, Dawn and Brett will review the quarterly results and outlook for the remainder of the year. After these prepared remarks, we will open the call for questions.

So with that, let me turn the call over to Dawn.

Dawn Farrell — President and Chief Executive Officer, TransAlta Corporation

Thanks, Sally, and welcome to everyone who's joined us for the call today. Once again, I'm going to be very brief with my comments so that we can have more time for questions at the end of the call.

To sum up the quarter, I'm pleased with our results and the performance of the business so far this year. We continue to expect the business to perform at the high end of our cash flow estimates for 2018.

Our year-to-date cash flow is higher year over year, our plants are performing at the high end of our plan, and we're meeting our debt reduction targets. I especially like what I see from the team up at Sundance, who this year have delivered the strongest availability since 1990, so congratulations to them.

Here in Alberta, there's been a lot of work done to optimize our fleet as we've turned the Sundance units from contracted PPAs to merchant units. We are proving quarter by quarter that the cash flows in the TransAlta Alberta business are consistent and here to stay. Having a portfolio here in Alberta of hydro, wind, carbon offsets, merchant and contracted coal, with asset optimization capability, is really—is paying off.

Our growth team in the third quarter finished the Kent Hills project, and have turned their attention to delivering the next two projects. I was personally pleased to announce that our offtaker for the big-level project is Microsoft, a great customer to partner with. We continue to see some nice bite-sized investments with good returns as we finish our debt reduction and begin to turn our attention to the future.

So with that, I'm going to hand you over to Brett, who will take you through the detail on the quarter, and then I'll have just one or two closing comments before we open it up for questions.

Brett Gellner — Chief Financial Officer, TransAlta Corporation

Okay. Thank you, Dawn, and good morning, everyone. So I'm going to start with our segmented cash flows, which reflects our EBITDA less CapEx. So as you can see from the chart at the top of this slide, in Q3 our segmented cash flows in 2018 were in line with the same period in 2017.

Canadian Coal was lower than last year, primarily due to higher CapEx this quarter relative to the same period as last year. This is due to timing, as CapEx in Canadian Coal is tracking to be below last year on a full year basis. The EBITDA in Q3 from Canadian Coal this year was in line with last year.

US Coal was also lower in the quarter relative to last year, as there were more unplanned outages this quarter, requiring us to purchase power in the open market to satisfy some of the hedges.

Australian Gas is also lower since last year included both the Solomon and South Hedland Power Stations, whereas this year only includes the South Hedland Power Station.

The reduction in these three segments were offset by higher cash flows in all the other business segments, particularly from Energy and Trading and Marketing, and our Hydro business, which is higher due to stronger prices.

On a year-to-date basis, which is the bottom chart, we have shown the bridge when adjusting for two key onetime items. The first item is for the 34 million we received in 2017 related to the index dispute settlement in Ontario. The second item is for the 157 million PPA termination payment we received this year. When those two onetime items are excluded, our total segmented cash flow is up 52 million or approximately 10 percent from 2017 on a year-to-date business. The increase in 2018 is due to lower capital across the fleet and higher EBITDA in Hydro, Wind, and Canadian Gas, all of which have more than offset the impact of higher carbon costs in Canadian Coal.

This chart shows the contribution of each of our business units to our cash flows on a year-to-date basis. As you can see, we're highly diversified by business segment. These cash flows are being generated by over 70 assets across Canada, the United States, and Australia.

I'll now turn to free cash flow for the entire company, which takes into account interest expense, taxes, noncontrolling interest payments, and preferred share dividends. This chart shows a bridge on a year-to-date basis, with and without the onetime items I mentioned earlier. When we exclude the onetime items, free cash flow is up 59 million relative to last year. The increase is mainly due to lower sustaining capital, as our funds from operations are relatively flat compared to last year, as we offset any reduction in EBITDA with lower interest costs associated with our debt reduction program.

Based on our year-to-date cash flows, we continue to expect to closeout the year at the upper end of our free cash flow guidance range of 300 million to 350 million, excluding the onetime PPA termination payment.

Now turning to the market fundamentals. In Alberta, fundamentals continue to be strong. On a year-to-date basis, prices have averaged $49 per megawatt hour compared to $22 per megawatt hour for the same period as last year. Prices in October have averaged approximately $64 a megawatt hour, and we expect prices for all of Q4 to average over $60 a megawatt hour. For 2018, current forward prices are approximately $56 per megawatt hour.

As a result of higher prices in Alberta, not only has our Hydro and Wind portfolio generated strong cash flows, but the EBITDA margins on a per megawatt hour of production from our Canadian Coal fleet have also increased significantly, as is shown on the bottom chart of this slide.

On the natural gas side, we continue to use as much gas as possible at the coal facilities to take advantage of low gas prices, as well as to reduce our carbon obligations. Once the Tidewater pipeline is up and running, we'll be in a position to cofire even more gas at these sites.

In the Pacific Northwest, prices year to date have improved as well, increasing to $26 per megawatt hour from $21 per megawatt hour last year. Currently, prices are strong, given the gas supply situation in the Pacific Northwest associated with the pipeline disruptions in British Columbia.

In terms of capital allocation, as you know, we've been using most of our cash flow, proceeds from dropdown transactions to TransAlta Renewables, and project debt financings to significantly reduce our corporate debt. At the same time, we've been able to continue to grow the Company and buy back shares.

As we look forward over the next couple of years, our capital allocation strategy will continue to focus on the same three areas. On the balance sheet front, we intend to repay the $400 million bond maturing in late 2020 from the excess free cash flow generated by the business, further strengthening the balance sheet.

In addition, between TransAlta and TransAlta Renewables, a further debt reduction of approximately 175 million will occur between now and the end of 2020 through the mandatory principal payments associated with the amortizing debt.

This quarter, we continued to invest more in our share buyback program. During the third quarter, we acquired and cancelled approximately 1.3 million shares, bringing the total number of required and cancelled shares for the year to approximately 1.9 million, at an average price of $7.34 per share. We'll continue to buy back shares at the TransAlta level under our normal course program, with the intention of using incremental cash flow generated by the business to reduce the number of shares outstanding when we believe our shares are undervalued.

From a growth perspective, we are seeing good opportunities to grow the business with projects that add long-term value. There's lots of things we're evaluating and believe we can continue to add valuable projects to the fleet, but we will continue to remain disciplined.

This quarter, we commissioned the Kent Hills 3 wind expansion, bringing total generating capacity of our Kent Hills wind farm to 166 megawatts. And construction is fully underway at the Big Level wind farm, and in August we started construction on the Antrim wind farm in New Hampshire.

So turning to Alberta, Tidewater announced the other day that they've received regulatory approval for the natural gas pipeline to our facilities, which will allow them to begin construction. As a result, it's highly likely we'll move forward over the next several weeks with exercising our option to invest 50 percent in the pipeline.

We also continue to advance the preliminary engineering work on the conversion of our coal facilities to gas.

So in summary, you can see we continue to generate strong cash flows from a highly diversified set of assets, and we have one of the strongest balance sheets in the industry, positioning us well for the future.

So with that, I'll turn it back over to Dawn.

Dawn Farrell

Thanks, Brett. So taking the broad view, we have successfully stabilized and adapted our business to the new realities in our industry. So just to summarize Brett's points, we have a solid base of existing assets, we're growing the business, and we're demonstrating value by consistently generating increased cash flows, even as we change plants from one regime to another.

As I look ahead, I do see three key areas of focus for the Company. So first, we'll continue to grow the value of the portfolio of assets here in Alberta, which generates stable and growing cash flows that are here to stay. We see a stronger market, upside in our hydro assets, and a capacity market that will provide value for our coal-to-gas conversions.

The economy is growing here in Alberta as is the power demand, and the rules for the capacity market are lining up the way we'd hoped they would. We have capacity, energy, and ancillary services products to sell into this market, and as demand increases, we have more capacity to bring back online.

Now from a capital allocation perspective, investing in the Alberta business so that it's ready for the capacity market is a top priority for the Company, and we have everything on track to hit our targets and to achieve strong returns.

Now our second priority is, of course, we're in the final stages of our transition to clean energy. We are well advanced with getting natural gas to our plants and making final investment decisions to convert our coal units to gas. My congratulations to Brett and his team, and to the team over at Tidewater for their excellent work on that pipeline, and for positioning TransAlta well ahead of the market in bringing gas to our plants.

Our ability to extend the life of our Sundance and Keephills units on gas creates cash flow well into the 2030s and potentially beyond, depending on how we position our investment strategy from here.

Our third priority is to continue to grow and diversify our business. Now I'll be clear, I think we've established in the past that we will continue to remain absolutely disciplined on finding good projects with the right returns so that as we invest in these projects cash grows and our balance sheet stays strong. Now this isn't easy to do, as you know, but the team is finding projects like Antrim and Big Level. Not big projects, just single, but projects that meet the criteria that we're looking for, and we see many more of those coming our way as we examine the portfolio of assets in our investment committee. Now overarching all three of these objectives is our drive to continually improve how we get work done and to align our cost to the future.

So with that, we'll close. I want to thank the employees of TransAlta, who've done tremendous work, and we continue to move forward.

So with that, I'll turn it to Sally for questions.

Sally Taylor

Thank you, Dawn. Kelly, can you please open up the call for questions?

Q&A

Operator

Certainly. At this time, I would like to remind everyone, in order to ask a question, please press *, then the number 1 on your telephone keypad.

Your first question comes from the line of Rob Hope from Scotiabank. Please go ahead. Your line is open.

Robert Hope — Scotiabank

Good morning, everyone.

Dawn Farrell

Hey, Rob.

Robert Hope

Just want to first off start on the maintenance capital. We've seen you reduce your 2018 (phon) expectation. And when you look out to 2019 and 2020 with how the coal units are being utilized, is 2018 a good proxy? Or do you see any big moving parts in '19 and '20 there?

Brett Gellner

Yeah, Rob. Clearly, we'll come out with our guidance at the right time, but yeah, I think it's a pretty good proxy going forward. As you can appreciate, every year is different because of the number of planned outages do vary year over year. I think as kind of a general long-term average, it's pretty good. In there is the mining capital as well and as we transition more and more into gas away from coal, that will come down as well.

But yeah, I mean without being able to give you some specific numbers at this stage, it's a reasonable proxy for going forward.

Robert Hope

All right. That's helpful. And then just moving over to US Coal. Pricing was strong, just given hydrology and the gas flows there. Can you give us a sense of what the drag would have been by the two unplanned outages and their nature? And whether or not they'll drag into Q4?

Dawn Farrell

No. The unplanned plant outages were just sort of typical unplanned outages that you get in coal plants. There's nothing there that'll drive into Q4 at all. So it's—I mean effectively we typically go into that summer with quite a bit of the portfolio hedged, then we have some merchant at the margin. If we have a couple of days where we have to cover some hedges, then that can effectively reduce the amount of cash that they make on an annual basis. But when we look at the year for that group, I mean it's—they're having a good year overall.

Robert Hope

Okay. And then just one final one. Your hydro plants in Alberta, just want to get your thinking on those on a long-term strategic nature just given that we continue to see very, very strong valuations in private markets for those assets.

Dawn Farrell

Yeah. They continue to be very strategic to TransAlta shareholders because of the high valuations in those assets. So we need you guys to start talking about that so that investors will know that we have them and that they're important and a big part of this portfolio, and should be something they should be valuing equivalently in the TransAlta portfolio.

Robert Hope

Thank you. I'll hop back in the queue.

Operator

Your next question comes from the line of Ben Pham from BMO. Please go ahead. Your line is open.

Ben Pham — BMO Capital Markets

Okay. Thanks. Good morning. I have a couple of questions on the Canadian Coal business. It looks like the Sundance units, looking at the realized pricing, and it looks like you're running them as more of a peak pricing sort of asset. And I wanted to clarify if that's the case. And then with that, does that—do we show anything about degradation of availability of you're running Sundance at peak times? Is that something to think about into next year?

Dawn Farrell

Yeah. Ben, so you're correct that when you look at the Alberta market, you really need higher pricing events to make a margin on those units to cover all their costs and the carbon tax and all the rest of it. So we typically keep them kind of on a min-stable, and then we're ready to achieve profits in the market when they come.

There is no question that if there was a much greater use of them in that regard over time you would have to start to degrade the availability. They're being lightly used this year, so I don't expect that. Certainly, as we come out—as we think about our guidance for next year and the year after, those are the kinds of considerations that we would bring to you. But currently, at the current use that they are in the market—I'm not an engineer, as you know, so I shouldn't be even speculating on this—but I don't think at the current use we'd expect to see a big degradation. It would only be if they really got into that mid-merit range, where they were in that 50, 60 percent availability that you'd start to have to factor that in to your economics.

Ben Pham

Okay. Got it. And then I guess on the cost line, you're benefitting from coal firing and whatnot. But can you also comment on, do you see Q3—the volatility's coming back a little bit—but are you—I mean, it's—the volatility you're seeing, is that what you've been expecting all year in your numbers?

Dawn Farrell

Yeah. I mean, so first of all, we didn't really know how the market would react to more merchant capability here in the market. And as you know, generally, the way you think about contracted versus energy only is, if you've got PPAs and contracts for capacity, generally you're barely making a margin at all on your energy. You're kind of bidding that in at variable cost. And then generally if you've got merchant units, if you want to keep them in the market and you want to keep them cost-positive so that they can actually provide a service, they have to be able to extract some sort of value for the capacity value at various points during the year, or you have to shut them down, right. They don't work in the marketplace.

So we did expect as we got into the marketplace that you would see more volatility because of that phenomenon, and then I think it just takes a while for the market to adjust. So I do think the market is now adjusting correctly to the way that it should run, given the mix of PPAs and merchant in the marketplace. And these are the kinds of expectations we would build in as we look ahead for next year.

Ben Pham

And lastly, can I ask you on the—I know you've been doing a lot of work on conversions and looking a bit more into that. But as you head towards the point of actually generating under the converted coal-to-gas, is there a situation where you can actually not convert just coal fire, because maybe the utilization isn't as high as what you may have expected?

Dawn Farrell

Yeah. I mean, I think—remember that conversion capital is pretty—it's not very high. So—

Ben Pham

Mm-hmm.

Dawn Farrell

—the thing that we have to do in our optimizations as we make our final decisions is look at yes, you might have a unit that only runs 12, 15 percent of the time. You can cofire in gas and you don't really need to put that expense in. But you do tend to have higher overall costs to maintain a coal unit. And then you've got to keep your mine open. So there's a lot of thought that goes into those economic optimizations. Brett and his team are doing a lot of work on that. I don't know, Brett, if you want to comment, but there's certainly lots of different factors, and you're basically searching for the one that's going to give you the lowest costs overall, the longest life, the best availability, and on an MPV basis, give you the better cash. But maybe, Brett, you want to add, because your team's doing that work?

Brett Gellner

Sure. Yeah. Ben, certainly before conversion we'll maximize how much gas we can utilize for cofiring. There's no question. But as we've mentioned in the past, there's a number of factors that are going into our decision to convert, and some of them Dawn mentioned. But also, remember, federally these assets have limited life with staying on coal. So by converting, we get extra life out of them. We also, as Dawn says, have much lower operating and capital costs going forward. They are more flexible on gas than they would be on coal. And then you have days when gas prices are very, very attractive from our perspective, and so just being able to utilize all that and factor that into the decisions. The other thing is if you stay too long on coal, there may be other capital you have to put in and operating costs to manage other environmental requirements on the NOx and SOx side. So by converting to gas, those are not required.

Ben Pham

Okay. That's great. Thanks for the update.

Operator

Your next question comes from the line of Mark Jarvi from CIBC Capital Markets. Please go ahead, your line is open.

Mark Jarvi — CIBC Capital Markets

Hi. Good morning. You guys mentioned the strong availability at Sundance. I just want to know your thoughts in terms of the other coal assets, the ones that are on PPA, whether or not you think—sort of what is the availability for those assets, the outlook over the next couple of quarters, and whether or not you think the availability incentive payments will stay pretty high.

Dawn Farrell

Well, I mean, the team up at Alberta coal has, as you know, they've been working on getting the right mix. To get high availability, you've got to invest your capital in the right place and then you've got to do all your operating procedures excellent every day sort of thing, and they've been at that with a variety of initiatives and projects for a long time now. So we're seeing strong availability across the fleet, and in particular we're pleased with the way that they've just been running everything. So as we go into—again, as we go into our guidance for 2019 and 2020, we always have to look at the investment and availability trade-off, and it's something that we talk about when we give our availability ranges. But they are just—they're doing a hell of a job up there. It's excellent.

Mark Jarvi

Good. And then while we're talking about coal, ATCO has come out and said they're doing a strategic review of their Canadian power assets, including the coal facilities in Alberta. I was just wondering if you had any interest in any of those assets. Or at the same time, if they did sell their interest in Sheerness, whether or not you guys would be willing to sort of tag along with that.

Dawn Farrell

Yeah. We can't comment on that kind of thing on a conference call like this. The one thing you just might look at is TransAlta's market share in this market is quite high. So we like the assets and our position that we have here today.

Mark Jarvi

Okay. Understood. And then just going to the hydro assets in Western Canada. If you look back on sort of realized prices in this quarter, last quarter was very strong. Sort of a fall off this quarter, despite power prices being improved year over year. Just if you can help us figure out maybe why they didn't perform quite as high as maybe we would've thought.

Dawn Farrell

Sorry?

Brett Gellner

The hydro.

Dawn Farrell

Oh, yeah, yeah.

Brett Gellner

Yeah. I mean the one factor, Mark, is if you look at September, prices did come off quite a bit, and so unfortunately when you just take simple averages it doesn't capture what goes on on an hourly basis. So I would say this September impacted that a bit. And normally as we start moving into this time of year, the water levels we're managing for the spring ahead of the runoff and the reflows. So that's part of what's going on there.

Dawn Farrell

Yeah. And just without setting any expectation at all for Q4, remember the way the hydro optimizers work is they're basically rationing water over the highest-priced hours that they think are coming, and generally people think there's more pricing in Q4 than there is in Q3.

Mark Jarvi

Right. Okay. That's helpful. Thank you.

Operator

Your next question comes from the line of Andrew Kuske from Credit Suisse. Please go ahead, your line is open.

Andrew Kuske — Credit Suisse

Hey, good morning. Just on Canadian Coal and the sustaining capital in the mine, I know there's a little bit of commentary in the MD&A on the sustaining capitals done in the quarter in the pit. Is that really just an anomaly in the quarter? Is this really just setting you up for the next few years of life? And then just the future transition on gas.

Dawn Farrell

Yeah. Yeah. Andrew, that's exactly what's going on there. So as we open up this final pit here, which has the best coal and the lowest cost, that's the coal we want to burn as we go through the next three years. So we had to spend the money this year to get positioned for that.

Andrew Kuske

So how should we think about just the next quarter or two? When does the mine capital start to fall off and get to more sort of "normal rate?"

Brett Gellner

Yeah. I would say, Andrew, we're still working through that. We'll provide that guidance when we come out. As Dawn says, you've got different things going on there: the opening of the pit as we transition through and the additional just ongoing maintenance that you would always have with the equipment. I can't give you a number at this stage but our plan is to have that number start to track downwards, clearly, as we continue to cofire more, obviously, because we're using a lot less tonnes than we have in the past, and clearly with the mothballing of two units, we're using a lot fewer tonnes and so that will start to wind down. But we'll update you on that as we come back to you on our guidance for next year.

Andrew Kuske

Okay. And then maybe just transitioning to the next question. When you think about your maturity schedule and just the financing market, as you look at your asset base, to what extent could you do green bonds for parts of the portfolio and just the timing of that? Because especially when you look at your hydro assets and the step-up in expected EBITDA as they roll off of PPAs in the early '20s.

Dawn Farrell

Andrew, if you thinking about a green bond to replace the 2020? Is that what you're thinking?

Andrew Kuske

I mean that's one option, either 2020, or just how do you think about the green bond market today, and then potential use in the future.

Dawn Farrell

Yeah. Well, just to be honest, I mean, we still plan to expire that bond in 2020 because we absolutely want to have—as I've said before, if you think about a balance sheet for the Alberta business, we want to be the Company that has a much lower debt going into that market than anybody else, just so that we can just be there no matter what's going on in terms of the pricing.

When you look at—we haven't put much thought into the green bond market relative to Renewables at this point, but I think as—and most of our strategy so far for Renewables has been to look at a project financing and every—our criteria for any new incremental investment there is that it has to have the cash flow to support project financing and sort of the equity. But that's something that I guess we could look at as we go forward here.

Maybe Brett, you can comment.

Brett Gellner

Yeah. I mean Andrew, obviously as you can appreciate, we look at all possible sources of capital when we evaluate those. Haven't had a need to look at that market, as Dawn says. But I think when we have looked at it, we've always come away not seeing it overly materially better than just going with the project financing strategy that we've been doing. Having said that, as we get into closer to when the hydro comes off, it is definitely that and other options that we can look at as ways to finance going forward.

Dawn Farrell

Yeah, we definitely see—I'm actually astonished by it—but kind of year after year, the project debt market has excellent coupons in it, and have really supported any sort of long-term PPAs that you have. So it tends to always beat out every form of financing.

Andrew Kuske

Okay. That's helpful. Thank you.

Operator

Again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

Your next question comes from the line of Robert Kwan from RBC Capital Markets. Please go ahead. Your line is open.

Robert Kwan — RBC Capital Markets

Great. Thank you. Maybe just kind of coming back to Hydro, and you noted both the way the volumes moved around as well as kind of, Brett, you mentioned the hourly price volatility. I'm just wondering, was there another piece or I don't know if that was in kind of that hourly answer. How much of the difference, if you look sequentially versus Q2, was just the movement we saw in ancillary prices?

Brett Gellner

Yeah. I mean it would be important because that's an important market for the Hydro as it is for some of our other assets here in Alberta. Remember, the ancillary service prices, think of them pretty much tracking what energy prices do. Not the same absolute dollar amount, but in terms of if energy prices are higher, clearly we get higher ancillary service prices. So those two kind of move in sync, more or less, and volumes wouldn't have been much of the issue. It was more just, as I say, we saw September fall off quite a bit, so that would've had an impact on both the energy and the ancillary.

Robert Kwan

Got it. And then just moving to capital allocation and the NCIB activity. We saw it ramp up here in the third quarter and, Brett, you also mentioned you want to be active when you're seeing value. So if we look at where you repurchased shares in the third quarter and we look at the current share price right now, is it fair to say that this heightened level, you expect it to continue if not even ramp up with the share price below 7 bucks?

Brett Gellner

Yeah. I mean if you look where we've been buying, you can probably appreciate that we're probably going to still consider using the program. And like I say, it's a balance of—as we said when we announced the program—it's part of our whole capital allocation decision. So as we look at our growth projects, we've made our way through a good bulk of the debt repayment, so that's behind us. So we throw it into the mix, Robert, when we're looking at it, but you can see we've been plugging away at it.

Dawn Farrell

Yeah. And certainly, Robert, if we see stronger cash flows, that helps to make that decision more easily. And you also—we probably should have mentioned in the script—we did have S&P did confirm our BBB minus credit rating. It's still negative as they see how we balance the portfolio going into 2020. So there's always a trade-off here between share repurchase, debt repayment, and we of course want to start making the investments in the coal-to-gas as well, which is another source of cash usage.

Robert Kwan

For sure. And maybe if I can just finish here. Just any update on the CFO search, and I guess just recognizing that Brett has experience in the chair, but are there any major initiatives that are just currently on hold pending a permanent CFO? Or is it just business as usual?

Dawn Farrell

Oh, no. It's absolutely business as usual, and we expect to be—you'll see who that is by year-end here.

Robert Kwan

That's great. Thank you very much.

Dawn Farrell

But in the meantime, Brett has to do all the work, so.

Robert Kwan

Great. Thank you.

Operator

Your next question comes from the line of John Mould from TD Securities. Please go ahead. Your line is open.

John Mould — TD Securities

Thanks. Good morning. Maybe just starting with wind development, you talked earlier about your appetite to take on more wind projects. Can you provide some context on how that market for additional US wind projects looks to you right now, and where you're seeing the most interesting opportunities on a regional basis?

Dawn Farrell

Yeah. I would say that we see better opportunities in the US market than we do in Canada. We see better opportunities working with corporate customers than we do entering into RFPs. So anywhere where there's a government RFP with a government backing for the PPA, the competition is brutal and the returns are just—I would never put my grandchildren's money into it, I'd never put anybody's money into it. It's just not enough to justify taking the risk because you're just, over time, those projects just aren't going to be viable. So our teams are focused on—I would say they're much more focused on the US market than they are the Canadian market. And we're just—we'll put prices in for sure, because you never know if people run out of money to throw away. But net-net, we're seeing prices more strongly in the US.

I guess the other thing is, I've been in this part of the cycle before. The worst I've ever seen was in the 1997 to 1999 period, and of course, now I'm really showing my age. But at that time, we saw returns like this and money like this and people chasing these kinds of returns, and then it just kind of all ends because they go to try to finance it or absorb the debt and it doesn't work. Now maybe we're in some unique part of the investment cycle; I don't know. But what I see in this part of the cycle is you've got to look at 100 projects to get one, and you've got to be patient, and you've got to just keep turning them away. Because everybody always wants to make the case that it's different this time, just go with us, just invest at these low prices and—or low returns, and we're just holding our nose and not doing that. So we've got good returns on the projects that we have done.

John Mould

Okay. And are you still seeing the US Northeast as kind of the most interesting spot in the country regionally?

Dawn Farrell

No. You see it in different spots. I think it depends more on demand than it does supply. I mean there's—if you look at the sort of the ESG market, and particularly what I see—I'm on the board of a chemicals company, right, so I see a lot of people that are in that part of the industry, the old economy we're called sort of thing, and everybody's really concerned overall about their greenhouse gas emissions or their NOx emissions.

So I'm actually, interestingly enough, seeing more cogeneration than I've seen for 20 years. And I think it's because at the end of the day what used to be a nice-to-do has become an imperative, it's a corporate imperative now, and you're seeing a lot of people having to report on their emissions. Now we've been ahead of the game on that always. TransAlta's always had really aggressive reporting on our sustainability targets, but you're seeing that as becoming something that's just going to be more standard. So I see a lot of demand coming and it's really being able to fill the demand for the locations where the customers are. So I don't see any region as being a hot region.

John Mould

Okay. Okay. Thanks. That's helpful. And then maybe just moving on to the Brazeau Pumped Storage Project. I'm wondering if you have any updates on that initiative and how you're thinking on that project has evolved, and the context of the AESO's report on dispatchable renewables.

Dawn Farrell

Yeah. I mean the AESO's report on dispatchable units—Renewables was really kind of limiting themselves to the period between now and 2030, and of course, Brazeau wouldn't even start 'til like now, 2028, and it would be a 50-, 60-, 70-year project. That kind of project does not fit in a market. So we continue to work with government to see what is the way to move that kind of project forward. In the meantime, we're not spending any real substantive money on it.

I think the other thing is this Bill 69. If it was passed the way that it's currently looked at, it would cause—we would pull Brazeau and we wouldn't continue with it, because you can't be in a situation in Canada where you can have a political decision after you spent a whole bunch of money. So we are waiting to see what that looks like as well. It's in the Senate right now, and we're hoping for real changes coming out of the Senate on that.

So net-net, it continues to be I know that project will absolutely have to built in this province, especially when you look at the greenhouse gas targets and some of the work that's going on, you're going to need a way to actually store renewables. People talk about these batteries. All our work shows that a lithium ion battery is not a form of storage; it's just kind of a load-balancing thing for the grid. So if you truly want to get into more renewables, which are really low-cost, and you truly want to store them, you need to do projects like Brazeau. But we need to, in this country, be prepared to really know how to do these kind of large-scale projects, and that's just—we haven't found a way to get that done yet. So stay tuned. It's not a short-term project, it's more in the long term.

John Mould

Okay. Appreciate the context. Those were my questions. Thanks very much.

Dawn Farrell

Thanks. Thanks so much.

Operator

Your next question comes from the line of Patrick Kenny from National Bank Financial. Please go ahead. Your line is open.

Patrick Kenny — National Bank Financial

Yeah. Good morning, and thanks for the comments around the Tidewater pipeline. Just wanted to confirm if exercising the 50 percent option is with a view to take the capacity on the pipe up to the full 440 million a day. And then also, with ATCO now bringing a pipe into the area, if Sundance and Keephills are now fully covered from a gas supply perspective to support full conversion, or if you still need to secure another pipeline.

Brett Gellner

Yeah. So good question, Patrick. We've got a couple of responses there. So as you know, at this stage, we've committed to the base volume of the kind of the 130 a day, and we will ramp that up as we develop and stage in our conversions over time. We'll only make those commitments once we're highly confident that we need that extra capacity. But if you do the math on full conversion across our fleet, you will need to ramp that up.

We've always said at day one that we want more than one pipeline into the sites for backup, redundancy, reliability, access to multiple sources of gas, and so that is still our plan and we'll continue to pursue that. Our first objective was to get a pipeline in there, and with the Tidewater, it was able to get us in there quickly, and not just for the conversions. As we said, we just needed the capacity also to take advantage of cofiring and maximize our cofiring, because today we're very limited to what pipeline capacity we have in there today, and so we're maximizing cofiring but it's limited by pipeline, not by the boilers themselves. So getting that initial volume in there will give us the ability to take advantage of low gas price days and also then just ramp up quickly when we need to.

Patrick Kenny

Okay. Great. Thanks for that, Brett. And then maybe just a quick question for Dawn here. Now that you have a relationship with Microsoft, I assume as part of your growth strategy you'll be pursuing other business development opportunities with them. Just wondering how you're thinking about building more renewables for Microsoft versus say trying to bring them into Alberta as more of a behind-the-fence customer at say Sundance, Keephills in a couple of years.

Dawn Farrell

Oh, yeah. I would say it's more building more renewables for them. When you see the—there are customers that would be interested in—are you thinking about bringing them—just explain that again. When you say bring them behind the fence, are you talking—

Patrick Kenny

Yeah. I guess it doesn't have to be Microsoft specifically, but data centres in general.

Dawn Farrell

Yeah, yeah, yeah. Yeah. That's what you're talking about. Yeah. The team has been working with us—there's a number of blockchain companies that would like to get on the land and get behind the fence. So far, that's—it sounds easy but it's not as easy as it sounds, because you have to have an actual connection from the plant, and the plants are not configured like that. They're configured to go into those big transmission lines that supply Alberta. But we've had a bit of a project on that but we're not really pressuring on that right now.

I think when it comes to companies like Microsoft, I mean they're—right now they're buying farms in any jurisdiction to back up their power supply. And then I think over time what we'd be hoping to do is do more work with them at their various sites, so that's how we're focused there. But you're 100 percent right on. Getting customers like that and working with them and being able to serve them is a big part of our future strategy.

Patrick Kenny

All right. That's perfect. Thank you very much.

Operator

Your next question comes from the line of Jeremy Rosenfield from Industrial Alliance. Please go ahead. Your line is open.

Jeremy Rosenfield — Industrial Alliance

That was a new one. Morning. Just one question I wanted to go back to. Off the top, there were some comments on the hydro plants in Alberta and the valuation of those facilities. So, Dawn, I'm just kind of curious, if you thought about potentially monetizing a minority stake in the plant's post-PPA expiry, potentially underwriting long-term contracts to a buyer of a minority stake as a way to both on one side source capital for growth opportunities, but also to demonstrate the actual value of those plants to the market via sale transaction.

Dawn Farrell

Yeah. I mean in my younger years where I would listen to all this stuff and go wow, that sounds really cool, let's do that, it's been proven over and over again, from what I've seen in the financial markets, that companies who take that strategy actually do not get the other part of the value showing up in their stock price. So I don't think it's a viable strategy.

I think the better strategy for us is to profile those assets, profile those cash flows, profile those valuations, prove quarter by quarter that they're strong cash flows, and get the value up. So we don't need the capital today. We've done everything we need to do to rebalance. I can't find a better return than those assets anywhere in the entire planet. If you look at—those are 100-year assets with low book values with high cash flows and excellent returns, so the current shareholders at TransAlta should love that they're in our company, in those assets, in those kinds of returns. So if there was—if someone could prove to me that companies that did that saw the valuations flow through, I might be a little bit more open to it. But everything I've seen so far, and you can go case by case by case by case, I've looked at all of it, it doesn't turn out to be a true story, so the arbitrage never turns out to be there. So I'm not keen for that strategy.

Jeremy Rosenfield

Okay. Thanks. That's it.

Operator

There are no further questions at this time. I will now turn the call back to Sally Taylor for closing comments.

Sally Taylor

Thanks, Kelly. Thank you, everyone, for joining us today. That concludes our call. But if you have any further questions, please don't hesitate to reach out to us directly in the IR department. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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