HD **Q3 2014 TransAlta Corp Earnings Call - Final**

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Presentation

OPERATOR: Thank you for standing by. This is the Chorus Call conference operator. Welcome to the TransAlta Corporation 2014 Third Quarter Conference Call. As a reminder, all participants are in a listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

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At this time, I'd like to turn the conference over to Brent Ward, Director, Corporate Finance and Investor Relations. Please go ahead, Mr. Ward.

BRENT WARD, DIRECTOR, CORPORATE FINANCE AND IR, TRANSALTA CORPORATION: Thank you, Brock. Good afternoon and welcome everyone to TransAlta's third quarter 2014 conference call. My name is Brent Ward, Director of Corporate Finance and Investor Relations. And with me today are Dawn Farrell, President and Chief Executive Officer; Donald Tremblay, Chief Financial Officer; Brett Gellner, Chief Investment Officer; John Kousinioris, Chief Legal and Compliance Officer, and Todd Stack, Vice President and Treasurer.

The call today is webcast and I invite those listening on the phone lines 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. All information provided during this conference call is subject to the forward-looking statement qualification which is detailed in our MD&A and incorporated in full for the purposes of today's call.

The amounts referenced are in Canadian currency unless otherwise stated. The non-IFRS terminology used, including comparable gross margin, comparable EBITDA, funds from **operations**, free cash flow and comparable earnings are reconciled in the MD&A.

On today's call, Dawn and Donald will review our third quarter operational and financial performance, provide an update on recent events and activities, and then open the call up to questions

But before I turn the call over, I would like to remind everyone of our Investor Day webcast planned for Friday, November 14th from 9:30 AM to 11:30 AM Eastern Standard Time from Stony Plain, Alberta. Dial-in information and a link to the live webcast are available on our website and we look forward to your participation.

With that, I'll turn the call over to Dawn.

DAWN FARRELL, PRESIDENT AND CEO, TRANSALTA CORPORATION: Thanks Brent, and welcome everyone. On today's call, I'll give you my perspective on our Q3 results, review our performance to date and discuss progress on South Hedland and our Australian pipeline project. Donald will review our Q3 financial results and update you on our financing plans. I will end our call by giving you some insights on the 2014 EBITDA and FFO ranges we provide you with this morning.

As you all know from our press release, our Q3 results are down CAD54 **million** in EBITDA compared to the same period last year. Our year-to-date EBITDA is largely tracking due to strong first-quarter results offsetting some of the weaknesses in the second and third quarters. Our strong availability is helping to offset the impacts of weaker pricing in the Alberta market. Overall, our businesses are performing mostly as we expected, given the changes in pricing conditions this year compared to last year.

So let me outline my views on our performance one segment at a time. And I'll start with Hydro. Our Hydro business did perform close to plan for the quarter. We expected lower prices and a year-over-year shortfall in Q3, against last year within our business plan and was not a surprise. Year-to-date our Hydro business is significantly below last year and we expect that to continue into the fourth quarter as power prices in Alberta remain weak. There is also significant -- as you know, there is also significant optionality in the Hydro business if prices recover. We have the water, we need the prices.

US coal was negatively impacted this year compared to last year by lower volumes of higher priced hedges and lower than planned coal delivery. We expected the roll-off of high-priced hedges in our 2014 business plan. However, we did also receive lower coal deliveries in the quarter. As a result, we decided to curtail generation in the quarter to save some coal for higher prices that will be in the market -- in that market in Q4.

Saving coal for higher-priced periods, which we expect to materialize in the fourth quarter, will add more overall value. We're working closely with the BNSF to keep deliveries higher in light of the increased traffic on the rail system.

Wind and gas in both Canada and Australia were in line with the same period last year as lower prices in Alberta were offset by better availability and wind resource. Our Wyoming wind project also contributed positively during the quarter, which generation in line with our plan and what we solidly made the original investment.

Gross margin from trading and marketing was CAD3 million in the quarter, which fell short of our yearly target of CAD10 million to CAD15 million. Despite a weaker quarter compared to last year, the team is tracking ahead of our yearly target and on track to deliver CAD80 million to CAD90 million in gross margins for the year.

So let me finish with Canadian coal. We continue to focus on delivering the performance of our Canadian coal assets to a more consistent and sustainable level. And we are making progress here. Fleet availability for the quarter was in line with our expectations at about 89% and much higher than last year. This strong operating performance was offset by the impact of lower Alberta prices in August and September on our incentive payments. I am however, pleased to report that the team has delivered in the operations. They set out to make improvements and they're succeeding.

You can see on slide 6 that going forward and in line with our contracting strategy, we remain highly contracted through 2016. We continue to maintain a small line position, which we believe is a prudent strategy as getting caught short in the Alberta market can be very expensive.

I'll now provide an update on our near and longer term growth prospects. As you can see on slide 7, our two projects in Australia have made solid progress on a number of fronts this quarter. As planned, we applied for the permits for the construction of South Hedland in early Q3 and we expect to receive approval and provide the EPC contractor with final notice to proceed by year-end. The EPC construction contract was executed at the end of July and engineering is well advanced. IHI, our EPC contractor, is expected to be on site in November with earthworks continuing -- expected to commence in January. Our project teams are developing plans for site mobilization and IHI is advancing the procurement of major equipments.

Our pipeline to bring natural gas to our Solomon facility in Western Australia is also progressing as planned and is on budget. Pipeline construction is underway on both the Eastern and Western routes and it's proceeding at an average of roughly three kilometers per day. The construction team remains on plan for completion of the project and we expect to generate revenues by the end of Q1 2015. We also completed the installation of all equipment required to burn gas at our Solomon generating station. I am pleased by our team's progress on both of these projects. We expect them to generate approximately CAD90 million in EBITDA on an annualized basis by 2017.

We are in the final stages of completing our bid with our partner MidAmerican for Alberta's Fort McMurray West 500-kV transmission project. We're one of four consortiums bidding for the project. Today, the project team has completed all submission milestones with the submission of our bid in Q4 being the last milestone. We expect the project to be awarded by year-end. This 400-kilometer transmission project is a critical piece of infrastructure for the province and we would welcome the opportunity to construct the line.

We also continue to advance the plan to build our 800-megawatt gas-fired generation station located at Sundance. Our application is in front of the Alberta Utility Commission. This project will provide low-cost energy to the province due to its strategic location and its size. Our marketing team is meeting with potential customers to enter into long-term contracts for the output of the facility. As discussed in prior calls, we intend to sign up -- we intend to sign long-term contracts before we start construction.

I will now turn over the call to Donald who will review our Q3 financial results.

DONALD TREMBLAY, CFO, TRAVELALTA CORPORATION: Thank you. As Dawn mentioned, we saw firm operational performance across the fleet during the third quarter. But lower pricing in Alberta to get all back to norm. EBITDA is in line over year delivering CAD91 million compared to CAD95 million for the same period last year. 2014 generation increased with a return to service of Sundance and Keephills 1, adding almost 1,000 megawatt of generation capacity compared to the same period of last year.

It contributes a more efficient mining operation and reduce our fuel costs by CAD2 per ton year-over-year. These improvements however were largely offset by lower price on the generation we deliver in excess of the target generation on our (inaudible) as well as on our merchant generation. Despite these challenging market conditions, our year-to-date improvement of Canadian Coal EBITDA up CAD29 million. US coal delivered CAD12 million in EBITDA compared to CAD20 million for the same period last year. On a year-to-date basis, US coal has delivered CAD43 million in EBITDA compared to CAD52 million in the same period in 2013. And the performance of TransAlta is ahead of our expectations.

Turning to gas and winds. Lower Alberta pricing negatively impact our Poplar Creek gas facility and Western Wind business during the quarter. However, this was largely offset by the (inaudible) availability in our gas portfolios, higher wind in Eastern Canada and the contribution from the Wyoming Wind project. Year-to-date, both gas and wind are tracking to our expectations with EBITDA at CAD228 million and CAD121 million respectively.

Our hydro business was also affected by lower power price in Alberta during the quarter. These plants are flexible and provide us with the optionality to create significant value by being dispatched in periods our pipelines, essentially functioning as secret facilities.

With the exception of July where we saw higher price, price in Q3 were much lower than last year and as a result, the opportunity to dispatch those assets and capture high price however was significantly reduced.

Year-to-date hydro EBITDA is at CAD65 million compared to CAD127 million for the same period last year. Remember, year-to-date price in Alberta have only been CAD56 per megawatt hour for the first three quarter of the year compared to CAD91 per megawatt hour for the same period in 2013.

FFO for the quarter was CAD145 million, down CAD29 million compared to last year, despite a larger decrease in EBITDA of CAD54 million. The new impact in FFO was primarily due to the benefit of a non-cash mark-to-market gain in EBITDA in Q3 2013. Year-to-date FFO is CAD537 million, CAD14 million lower than last year.

Dawn will close the call with comments on how we are tracking against our range for the year, now that we have three quarters of the year behind. But before she does that, if you move to the next slide, you will see that our total sustaining capital expenditure are CAD265 million year-to-date. We expect to be at the low end of our 2014 target range of CAD335 million to CAD365 million for the year.

Now, I will update you on our funding plan. Year-to-date, we have made considerable progress to strengthen our balance sheet. We have reduced debt by CAD500 million including cash on hand, through asset sales that risk the RNW secondary offering and our recent -- share offering.

S&P which simply concern our investment grade rating, demonstrating our plan is taking us to the right place, but we are not yet done. We also met with the other agency in the quarter and we are committed to right size our balance sheet to be able to sustain a low price environment. And this means lower debt levels over time with our existing portfolio of assets.

We also have additional capital requirement over the next years as we build out our Australian platforms and continued to explore acquisitions that could increase EBITDA in 2015 and 2016.

The funding capital commitments, we freed up approximately CAD100 million per year of free cash flow to support our growth when we resize our dividend at the beginning of the year. We also have access to fresher markets to fund our capital requirements.

Finally, TransAlta will although remain a financing option for us. We established a vehicle last year to pursue and fund TransAlta's global opportunity and to provide additional financial flexibility.

We can certainly use our individual lower cost of capital to support our capital [requirements] as it increase. Stable assets in our portfolio meets our individual investment (inaudible). We also believe there is still a considerable amount of liquidity available within these existing assets that have not adequately been recognized by the market. We will provide you with an update on our growth and funding plan at our upcoming Investor Day on November 14.

And with that let me turn the call back over to Dawn to review our expectation for the end of 2014.

DAWN FARRELL: Thanks Donald. Now, I do want to provide you with an update on our thoughts for the fourth quarter and how the year could end. On a year-to-date basis, we are tracking to the ranges that we outlined in February on all accounts. However, while we did account for a certain level of lower Alberta pricing in our 2014 guidance. The weak pricing in Alberta in August and September is worse than we expected and we believe this pricing environment could potentially be sustained through the end of the year.

We are hedged where we can be at prices in line with our plan, but as you know the optionality of our hydro and our wind generation can't be hedged. So we believe some caution is required. We now believe that EBITDA will be in the range of CAD1.005 billion to CAD1.025 billion and FFO will be in the range of CAD735 million to CAD755 million, if prices do remain unusually low in November and December of 2014.

I will now turn the call back to Brent for questions.

BRENT WARD: Thank you, Dawn. Well, we'll take questions from the analysts and the investment community first and then we'll open the call to the media. I would also remind you that my team and I will be available after the call for any follow-up questions or model-related questions that you may have. Brock, we'll take questions.

Questions and Answers

OPERATOR: Thank you. Ladies and gentlemen, we will now begin analyst question-and-answer session. (Operator Instructions) Linda Ezergailis, TD Securities.

LINDA EZERGAILIS, ANALYST, TD SECURITIES: Thank you. I was wondering if you could maybe give us -- and maybe this is a question for Donald -- an update on your discussions with the debt rating agencies, specifically Moody's. My sense is that I don't know operationally how you're on track versus their expectations. And what sort of target leverage either on a debt to capital or debt to EBITDA basis are you aiming for right now? I don't know if there's been any change on that front. And I guess any context around how TransAlta renewables or any other levers you might have would fit into all of that planning.

DONALD TREMBLAY: No problem, we will clearly provide more detail updates at our Investor Day in November, but we have like constant communication with them over last eight months. They understand exactly where we are. They understand our plans. We are on track to basically realize on that plan. Clearly like -- I don't want to say like we're -- there is still some challenging time ahead of us, but clearly we have a good plan. We understand where we are going. We need to deliver. We need to execute. And the reduction of our debt [beginning] of the year is clearly like aligned with what you're looking for.

DAWN FARRELL: And Linda, I'll just add in there. I mean this is a good reason for you to come to Stony Plain in the middle of November in Alberta. But what we'd like to do -- what we'll do at that meeting is lay out for you just how we're looking at and how we're going to pull together those requirements that they're now just talking about and match those to those to the growth that we are doing as well on Port Hedland.

DONALD TREMBLAY: And just to come through because you have the question about like renewal, fairly like TransAlta Renewables is part of the mix, or part of the tool that we have to help us getting where we need to be.

LINDA EZERGAILIS: Okay. And can you maybe comment for modeling purposes how you might refinance? I believe you owe that CAD500 million, a US CAD500 million issue maturing this January.

DONALD TREMBLAY: We basically like -- when we did the May 1 offering, we basically had CAD200 million more that we raised at that time, which is like an additional pressure offering like in August. So that was like prefunding of debt maturity. And -- so that's our plan.

LINDA EZERGAILIS: Okay. Thank you.

OPERATOR: Ben Pham, BMO Capital Markets.

BEN PHAM, ANALYST, BMO CAPITAL MARKETS: Okay. Thank you and good morning, everybody. Just on that credit rating question and what the Moody's negative outlook, there is some commentary about your collateral requirements on the fact a downgrade to non-investment grade. And I'm just wondering does that kick in when it's both S&P and Moody's downgrade to you or would you just need the Moody's to move to trigger that collateral requirement?

DONALD TREMBLAY: Just one is required.

BEN PHAM: Just one is required? Okay. And then just on your balance sheet, I had a question on that. And when you guys cut your dividend earlier this year, you set up a payout ratio of a range was 67% the high end, and I think you were at the mid-point at that time. And it looks like this year you're going to be above that range. So could you talk about just what Alberta power price assumptions that you had bake into outlook? And also just longer term, where would you like to see a payout ratio go?

DONALD TREMBLAY: So we believe that the payout ratio that we set at that time is basically we be able to absorb the reduction in power price.

BEN PHAM: Okay.

DONALD TREMBLAY: (Multiple speakers) not have an impact on the dividend level.

DAWN FARRELL: Yeah. And just, Ben, to your earlier question, the work that we're doing with all three -- with the credit rating agencies is all predicated on ensuring that the balance sheet is set up to be investment grade, both now and in the future as we start to see our merchant prices coming into the business as the PPA's roll off. So that is -- when you come to Investor Day, that -- you're going to see our plan for that to ensure that that is the case.

BEN PHAM: Okay. Thanks a lot, everyone.

OPERATOR: Paul Lechem, CIBC.

PAUL LECHEM, ANALYST, CIBC: Thank you. Just wanted to get a bit of sense of how we should think about going into next year and maybe the puts and takes versus this year in terms of your FFO and EBITDA. Maybe you can give us some thoughts about your price -- your better pricing assumptions. And what might be other puts and takes versus the guidance you've given for this year? Especially you had a very strong start to the year in 2014 on the **energy** trading side, you might not get that next year. So can you give us some thoughts about the parameters and how we should think about going to next year based off this base year 2014?

DAWN FARRELL: Yeah, Paul, we're just finishing off our budget for next year. And we are looking at just what level of pricing to build in. I think a couple of things that you could think about is if you're trying to do something earlier than us that we will be giving some guidance on our ranges in our February conference call. And we will give you next week some of our ranges and our views on power prices.

But just the market itself seems to be trading around that CAD49 to CAD50 range. So that's where we see prices look like they're going to be averaging next year and certainly we were seeing that kind of price pressure coming when we were setting our hedges last year. So that's not a bad number to look and you can run some scenarios around that.

We will have some additional income that will come from the pipe that you'd want to build in. And I think you can take probably whatever happens this year on the hydro business is indicative of what the hydro business does in those kinds of pricing environments. So I don't think you'll see too much difference than that.

The **Wind** business does tend to be running around that 50th percentile for **wind**. So that -- I think that's a pretty -- not a bad run rate for that. And what you see in gas is not a bad run rate.

So I think we continue to see our availability kind of tracking at the same range as it has been. We don't see any issues on that going forward. And so I think that the big outliers are really trying to figure out what kind of optimization we can do in Centralia, given those prices, as you know, have been a little bit weaker. So we'll give you some price ranges on those as well.

And I mean on average, I think next year is probably not much different than this year but for the pipe, and we still have a little bit of work to do to show you what the sensitivities are around the unhedged part of the business given where prices could be. It seems to be the shorter months that are very, very weak here in Alberta at this point. This is the first we've seen this -- these prices be this weak in shorter months. But we still have the winter to go through, so we'll have a better sense of pricing once we see what the winter looks like.

BEN PHAM: Fair enough. Do you have any thoughts on the impacts of the Shepard **Energy** Centre, if that comes on line, what that might do to pricing through the winter?

DAWN FARRELL: Well, I think the market is pricing that in. So I think when you look ahead at the forward markets right now, it is pricing more aggressive pricing for sure in November and December than what we've been experiencing here in September and October. So the market and the forward market has been pricing that in. As you know, in Alberta, it all depends on what happens in real time and a lot of it depends on how mild or how cold the winter is. So Shepard is being priced into the forward markets. So if you look at the forward market off ice for January and February and all of next year, I think you're getting a pretty indicative indication of what people think prices will be with Shepard.

BEN PHAM: Okay, one last question if I can. On Centralia, your contract with TSC kicks in in December. Is that correct? And could you give us - is that at the end of December? When in December does that kick in? And also your -- is your guidance for contracted prices for next year in the Pacific Northwest -- does that include the initial contract with PSC for next year?

DAWN FARRELL: Yeah. When we give you contracted price levels in the Pacific Northwest, it will include for 2015 -- it does include for 2015 that price and it does kick in December 1.

BRENT WARD: Okay. Thanks very much.

OPERATOR: Charles Fishman, Morningstar.

CHARLES FISHMAN, ANALYST, MORNINGSTAR: Just -- let's see, slide 12, when you talk about the financial flexibility that renewables provide, I just want to make sure I understand that. There is no further assets dropped down into renewables, what you're talking about is an additional secondary offering. Is that correct?

DAWN FARRELL: No. What we're talking about is there are other assets that TransAlta owns. We have hydro assets and contracted gas and another **wind** farm. So we have other assets in TransAlta that could be dropped down into renewables in another primary offering.

CHARLES FISHMAN: Got it, okay. That was all I have. Thank you.

DAWN FARRELL: Yeah. And just to be clear, we see that the levels that we will keep our ownership of renewables at 70%, we're at that right now. So we wouldn't have a secondary offering off existing assets.

CHARLES FISHMAN: Got it and thank you.

OPERATOR: Matthew Akman, Scotia Bank.

MATTHEW AKMAN, ANALYST, SCOTIABANK: Hi, thank you. On Centralia, could you just go into a little more detail on some of the rail constraints that you had in the quarter and whether you see those persisting and the cause of those?

DAWN FARRELL: Yeah, so I'll start with the cause. So the good news is, as you know, Matt, the U.S. economy is starting to grow and the rails are always the leading indicators. So the rails are not only moving **coal**, but they're moving **oil**. And there is a big harvest, so there is a lot of agriculture product. But more importantly they're starting to move goods around from **China** and offshore it. So there is quite a constraint on the rails.

You probably -- I mean, you remember that we had to renegotiate the rail contract a couple of years ago to get some cost reductions in order to really get Centralia back in line with what the market conditions were. And as part of that we have to nominate a certain amount of **coal** every October depending on what we think we're going to run at. And then they will either try to meet us with greater amounts of **coal** if we run the plant more, but we don't have the same kind of guarantee to ensure that when we nominate a level that we'll absolutely get that amount.

And so we work really closely with them. We know that they've had to cut shipments across their system much greater than what they've had trouble delivering to us because of the constraints that they have. And so they've been working hard to meet our demand. Now the good news is the trading group works very closely with the [client] group, so as part of the optimization, what they've been doing is buying back in low price dollars and then just saving **coal** for Q4 when they know it's going to colder and price is going to be higher.

So we think we'll -- we've gotten more value out of Centralia this year than we thought we would given the high price hedges rolling off. And so having a little bit less **coal** has been a little bit of a setback in this quarter, but we see that coming back in the next quarter. For next year we nominate again our **coal** deliveries in October, and we are working with BNSF to ensure that we get what we need as we go through the quarters. And it's working out well.

MATTHEW AKMAN: Is that also partly because you expect in a normal year to turn the plant off periodically in an economic dispatch? Or as this year, you didn't have as many opportunities to do that. I noticed production is up year-over-year.

DAWN FARRELL: Yeah, and that's kind of the challenge because if you over nominate and they think you're over nominating, they're going to cut back your shipments, in the sense, trains to pick up oil.

If you under nominate and then you run the plant more, you have a chance of not having the coal. So, remember, we've got coal on train, train sects and then we've got coal in the pile and then we've got economic dispatch. So there is a large optimization if the guys do. So if we do have more high priced towers in the summer time and we run more then we really have to watch how all that optimization works.

MATTHEW AKMAN: Okay. And I guess talking about puts and takes, finally, to wrap up going forward. With only CAD43 million of EBITDA from U.S. Coal, so far this year, I would hope that you guys sort of see this year as sort of a bottoming out of Centralia.

DAWN FARRELL: Yeah, I think I'm just trying to think about we are just finalizing our plans for next year and I think that's about right. I think that the -- there's what we can get out of the contract in market and what we can get out of just selling straight energy. But we seem to have some really good work to get done on the optimization. So it really depends on how the price curve you've set up. So if there is -- you know, as you know, if there is a really low Q2 and there is a high Q3, if we can tend to get a little bit more optimization out of that. But I think that's a fair comment.

DONALD TREMBLAY: Price volatility in Pacific Northwest is always good for that time because (inaudible) to basically optimize the plan by buying back the power and reselling it later when prices are coming back up. So clearly like volatility in Q1 and Q3 and Q4 (multiple speakers).

DAWN FARRELL: And certainly the PSC contract coming in is going to help quite a bit.

OPERATOR: Andrew Kuske, Credit Suisse.

ANDREW KUSKE, ANALYST, CREDIT SUISSE: Thank you. Good afternoon. I guess maybe a bit of a nitpicking question, just on the energy marketing. It's really been a rare occasion, where you've had a loss in that business in the quarter. So maybe just give us a bit of color on what happened in this quarter versus earlier. Honestly, you haven't had that many losses in our business.

DAWN FARRELL: Yeah, I think there is a couple of things there. First of all, pretty low volatility. And we've talked about this before; we've got very tight risk management parameters around that business and we like them to focus more in the real-time markets, in the day-ahead markets and more on arbitrage. So if there is not a lot of volatility, they don't have a lot of opportunities to put a lot of strategies on. And you'll also see that they do some gas work for the gas business. So there is a mark-to-market gain in gas of about CAD3 million, that is the mark-to-market loss in the trading business that will wash itself out by the time we get to the end of the year, I think. I think it's the end of this year or the end of next year.

So that's a bit of an unfair pressure on their business that you could add back. And as well, they have some additional costs this year that they don't normally have for some of the regulatory work that we're having to do for the MSA files. So some legal fees that would be unusual for that business. So I think when you add those three things together, that's why you get kind of a marginal loss there.

ANDREW KUSKE: Okay, that's very helpful color. And then just thinking more on the opportunity side and into the future. When you look at Australia, obviously you've got a few things going on there right now. But if you thought about it in an unconstrained balance sheet scenario -- and obviously everyone has constraints. But if you thought about an unconstrained balance sheet scenario how many projects would really hit your hurdle rate at this stage in time in that market?

DAWN FARRELL: Oh man, if I had an unconstrained balance sheet? And forget Australia. If we look at the projects that Brett's got on his list of things that people are both bringing to the market on the acquisition side but, more importantly, on the greenfield side right now, there is some great projects here in Alberta, in Saskatchewan, in the U.S. and in Australia. So if you have a way to get me an unconstrained balance sheet, you can come and have Donald's job and we're good.

DONALD TREMBLAY: (inaudible).

DAWN FARRELL: That's going to be in his goals for 2015. So, that is -- I mean, there's some assets trading at some really low returns. And we're not -- we get into the market for those and look at them and chase them for a while and then just like somebody else take them. But there is more Port Hedlands out there as well, especially on the greenfield side and even on that sort of brownfield-quasi-greenfield side, where it's bit of a -- you purchase something and then you update it. So, no, there is still good returns in our business.

ANDREW KUSKE: So just on that point, then, would that really speak to stronger and an improved use of TransAlta Renewables as a dropdown vehicle?

DAWN FARRELL: Yes. And we certainly -- we have said that in the past, and we'll be talking about that more aggressively as we get to investor day.

ANDREW KUSKE: Okay. Thank you so much.

DAWN FARRELL: So you should come too, Andrew. This is an advertising for you.

OPERATOR: Robert Kwan, RBC Capital Markets.

ROBERT KWAN, ANALYST, RBC CAPITAL MARKETS: Maybe (inaudible) asked the question that he's off a little bit on Andrew's question with being able to get the balance sheet in the right place, and use RNW to do more growth as the carrot and then the stick being the discussions that you have had with Moody's. And I guess it sounds like you definitely have some work to do to reduce debt levels.

So, I guess what's the sense of urgency given just the state of the markets now and to try to get as much of this done today rather than try to work on a call it a six- to 12-month plan to get the balance sheet in the right shape from a Moody's perspective?

DONALD TREMBLAY: I don't think there's any urgency. We had good discussion with Moody's (inaudible) understands our plans, and they gave us like they're trying to indicate on that plan. So there is no urgency to deal with this like tomorrow, but clearly like -- it's not like, like a three-year plan either. It has to be within the next like 12 months that we need to address this.

BRENT WARD: Yes, I would say, I mean, I think it's more of a 12- to 18-month plan had to be well done and get the pricing at the right time to get the most value. So there is no emergency here, but we do see -- I mean, like I say, when you look at the growth prospects and particularly if (inaudible) can translate on this bid for TAMA, there are some good opportunities here.

ROBERT KWAN: Okay. If I look at the guidance that you've given here, the revised guidance for the year, for comparable EBITDA to get to the low end of the range given what you've done to date, it's implying CAD270 million for the quarter. And if we look at the best quarter you've done this year, which was Q1, and it was CAD310 million, but CAD49 million of that was trading, you had Alberta Power that was just over CAD60 million, you had Mid-Columbia, in the mid '40s. I'm just -- you had a little bit more outages, I guess, in Q1. I'm just wondering though what are you seeing in the business given what sounds like you've got a modest outlook for power prices in the quarter that allows you to get even to the lower end of the range?

DONALD TREMBLAY: Like, clearly Q4 is like normally a good month for the wind; like, we're entering like the windy season. So clearly like much more generation from wind and in other forms, so that's number one.

Even though, like most of our positions are already pulled forward edge. So we don't have that much exposure in volatility. So where we have volatility is like (inaudible) and wind in Alberta. So that's where we have basically have volatility.

And when we will look at like -- like you mentioned like Q1 of this year, we hit CAD300 million. But we also in the past had other quarters where we hit CAD300 million. So I don't think it's - like, it's feasible. It's clearly like the current pricing is challenging. So that's why we were cautious and we reduced our guidance, but we believe that like within that range we are very comfortable.

DAWN FARRELL: Yeah, I think the biggest reason, you got to remember that our Q4 is when it's windy. And our wind -- some of our wind is priced in Alberta, but a lot of it is on fixed price contracts in Ontario and Quebec and in New Brunswick. Right?

DONALD TREMBLAY: And remember like Q1, Q2, we had outage. Q4, there is no outage and like all the equipment is available.

ROBERT KWAN: Okay. And if I can just ask one last question, just under the PSE contract, is it a flat contract throughout the year in addition to being flat on peak, off peak?

DAWN FARRELL: Yes.

ROBERT KWAN: Both from rice and quantity?

DAWN FARRELL: Yes.

ROBERT KWAN: Okay. That's great. Thank you.

OPERATOR: (Operator Instructions) Mark Sonnenblick, AIG.

MARK SONNENBLICK, ANALYST, AIG: Hi, good afternoon. So your neighbor TransCanada has got some activist shareholders who are pushing them to sell assets. And I guess -- and given your position in Alberta, could you add some of those assets in the province if they were to come up for **sale**?

DAWN FARRELL: Well, yes, I mean if they decided to sell their co-generation assets in Northern Alberta, we certainly could bid on those. Part of their assets are the PPAs on some of our Sundance units. That's a little more problematic because of government regulations. So I don't think it's out of the question, but we would have to seek approvals from the government to be able to bid on those.

MARK SONNENBLICK: Okay. I just want to follow up on the Moody's rating. I guess in the U.S. there are several merchant generators who are operating in a DD, **B** category. And I am wondering what's so different about your business that you couldn't so you had to operate in that area. And so how our part can Moody's actually push you to do what you need to do before you say, all right, enough is enough, and we'll just take the downgrade?

DONALD TREMBLAY: The investment grade is important in term of like a simple but noble. But it's also important in term of our growth strategy, like we're dealing with like commercial, like industrial customer and for them having like low levels of conservative volume. So our credit rating is not just important for like the bond but also important for like our growth strategies. And it's a much smaller, like capital markets than the U.S. So low investment-grade debt like is available today. We ended the available in two years from now. So like in Canada it's probably like greater risk to run in that to have any -- that to have any ratings. So that is supporting our position that like investment grade is important for us and that's what we're communicating.

DAWN FARRELL: Yeah, Mark, just let me put some context. So in the United States there is two groups of IPPs. There is merchant; merchant IPP is like (inaudible) and **energy** who pursue a very -- you wanted by very, very low cost assets to using non-investment grade debt, high leverage, and they're trying to position themselves for potentially higher prices as the U.S. economy improves and power prices have improve along with it. And many of those companies, they've gone through some rocky times and have come out and are pursuing these strategies.

There is also a group of IPPs in the U.S. that are affiliated with utilities, where they tended to have concentrated on more long-term contracted assets similar to what you see us do -- have seen us do in Australia with Solomon and Port Hedland, what you've seen us do when we bought Canadian Hydro. So if you look at our strategy, it's much more akin to those IPPs and all of those are investment grade. And we compete in their space more than -- we don't compete really in the space of the other IPPs. When you compete in that space, your counterparties want you to be investment grade. It's much cheaper for us to run a trading shop that does asset optimization if we remain investment grade. So the business strategy of TransAlta isn't akin to the merchants that you're talking about.

And which is why we think that it is critical that we work with the credit rating agencies to ensure that our strategy is finance, so that we are investment grade here in the Canadian market.

MARK SONNENBLICK: Fair enough. Just to follow-up, then, so can you talk about a 12- to 18-month, I guess, time frame, they put you on negative back in February. So that's eight months ago. So is that eight months even to that 12 months to 18 months, or is it 12 months to 18 months from today that you're talking about to put the strategy in place?

DONALD TREMBLAY: It's basically like during 2015.

DAWN FARRELL: Yes.

MARK SONNENBLICK: What was that again?

DONALD TREMBLAY: We're looking at 2015.

DONALD TREMBLAY: If we can get everything done in 2015, we will. But I think the reason we are saying 18 months is we're not going to -- we want to take our time and get all the value we can out of the strategy.

BRENT WARD: Okay, thanks.

OPERATOR: This concludes the analyst Q&A portion of today's call. We will now take questions from members of the media. (Operator Instructions) There appears to be no questions from the members of the media today. I can hand the call back over to Brent Ward for any closing comments.

BRENT WARD: Okay, great. Thanks, Brock. I appreciate everybody dialing in for the call. And if anyone has any follow-up questions, you can feel free to contact [Johnson] or myself. We are available. Thank you.

OPERATOR: This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.

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