

# A Buyer's Experience

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NYSE : TAC




TSX : TA

# Who is TransAlta?

- Canada's largest non-regulated electric generation and marketing company
- Operations in Canada, United States, Mexico, Australia
- More than \$9 billion in assets

# GHG

## Strategic Issues

- Large GHG emitter...coal base, growth  focus 31 Mt/yr  
GHG's 
- Large potential liability  estimate 5-6 Mt's reductions  
required in Canada alone under Kyoto, yet to  
come...Australia, U.S., even Mexico
- Early recognition of risk established a GHG offset  
acquisition program in early-90's

# GHG Offset Activity at TransAlta

- Acquired (or negotiating) projected-based VERs in Canada, USA, Europe, Asia, Oceania, South America and Africa
- Sold over one million tonnes to parties in Canada, USA, Europe & Japan
- Transacted in European national-level compliance instruments

# GHG Offset Strategic Evolution

Sustainable  
Development

Compliance  
Requirements

early 90's

2003

- Learned issues

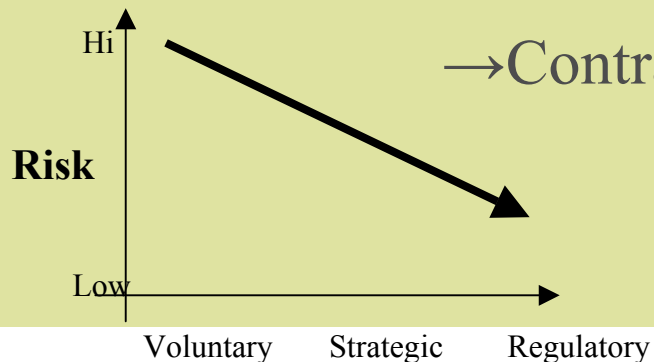
- Engaged in policy discussions

- Contracted first project-based emission reductions

- Ongoing pursuit of emission reductions

- Monitoring regulatory dev'mts

- Facility level compliance



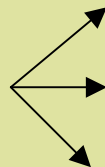
# TransAlta's GHG Offset Strategy

- Portfolio strategy has been to maintain high diversification in geography, offset product type and source, and manage an average portfolio cost per tonne at discount from “market”
- Strategic sales
- Strategic transactions to test political will and/or increase learnings

# Building a Diversified Portfolio Against a Diversified Demand

## Products

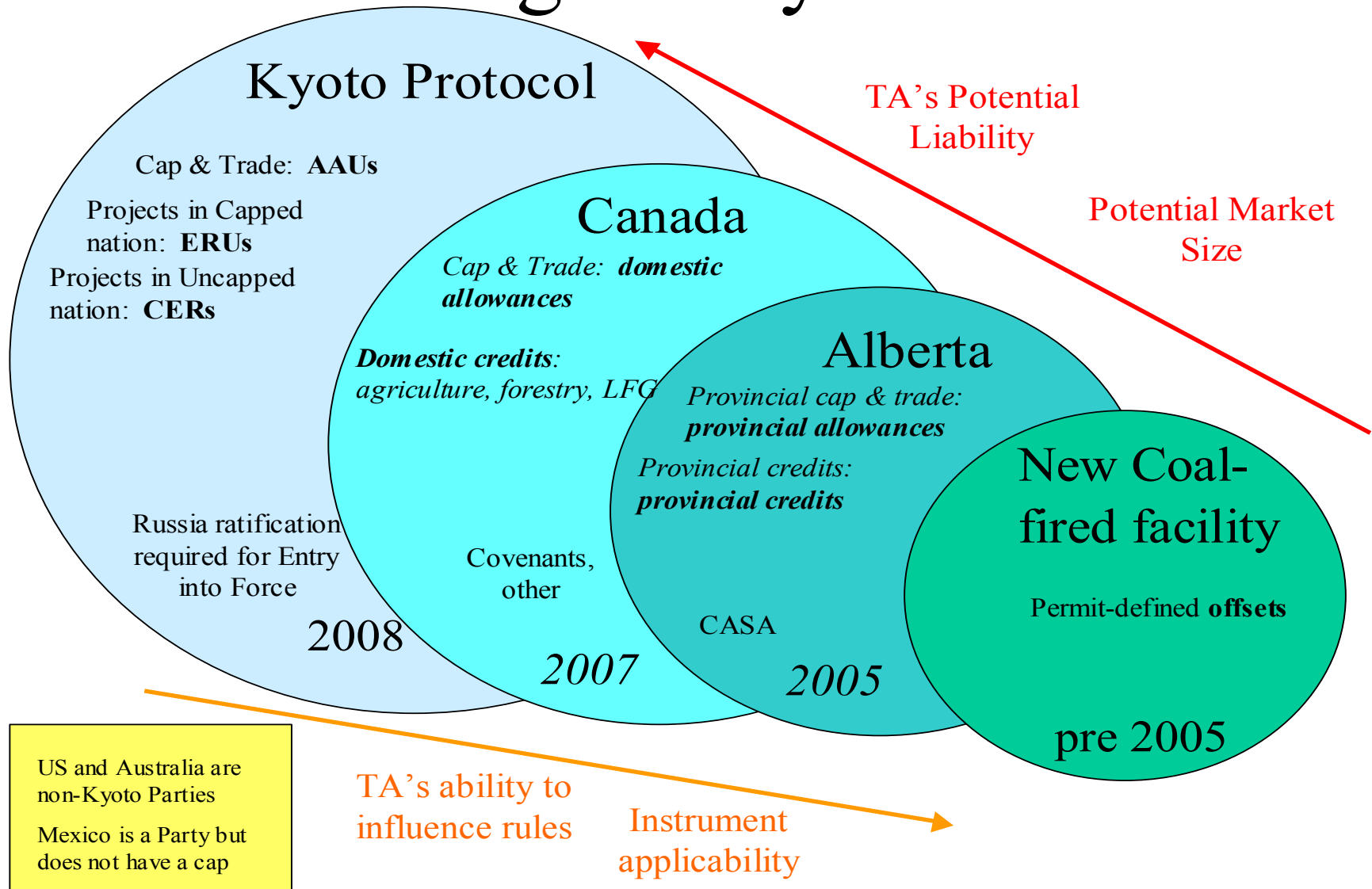
- CER's
- ERU's
- AAU's
- RMU's
- VER's
- UK allowances
- EU allowances
- Australian ?'s
- REC's
- Etc.



## Internal Demand

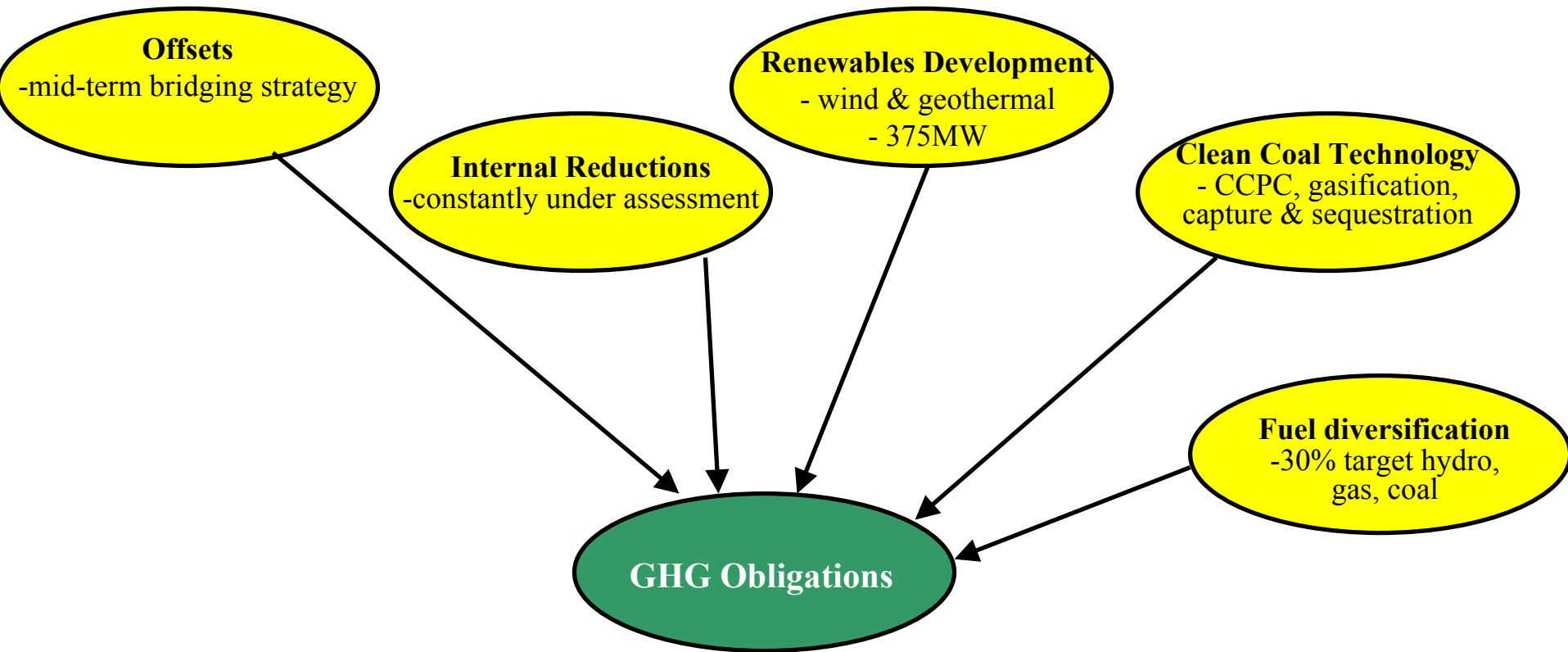
- Regional compliance
- Regional voluntary or business
- Cdn domestic
- Kyoto "gold star"
- US domestic/state
- US Kyoto?
- Australian domestic
- Mexican voluntary
- Regional RPS
- Etc.

# Example - TransAlta's Current GHG Regulatory Demands





# For TransAlta Offsets Are Only Part of the Response



# Lessons Learned as an Early Buyer: (school of hard knocks!)

→ Project Acquisition

→ Deal Structures

→ Contracting

→ Project Management

→ Portfolio Management

→ Financial Accounting

→ Sales

→ Organizational Issues

# Project Acquisition

- GHG Value: volume, price, quality, ownership...price of entry
  - Quality includes science, permanence, leakage, monitoring and verification, additionality, proponent's GHG experience, etc.
- Transaction costs significant...threshold minimums
- Risk assessment...most difficult skill set for most buyers

# Sales

## **Buyers shouldn't be just buyers**

- If net buyer, what portion of portfolio to allocate to sales?...critical mass required
- Back to back with acquisition?
- Liability tolerance? Guarantees?
- Under what circumstances.....
  - Strategic for relationship building
  - Rebalance portfolio (Liquidate unneeded volumes / types)
  - Market entry & learning

# Deal Structures

## **Maximize flexibility to make the deal**

- Project investment: equity vs. carbon purchase...buyers choice, should match with company risk tolerance
- Historicals / spots...careful not to get “kyoto tunnel vision”
- Swaps: Instruments or vintage

# Contracting

## Key Elements

- Definition of what is being transferred: VERs, future CERs, ??...strangely unclear, buyer beware
- Clear ownership and title, transfer mechanisms...test ownership
- Process responsibility for monitoring & verification, certification..must be articulated
- Delivery / performance risk; Compliance risk
- Confidentiality
- Change of law
- Force Majeure
- Liability issues

# Project Management

## **Needs higher level of intervention**

- Relationship with proponent
- Access to project facilities, books, etc.
- Frequent reporting
- Milestones tied to payments... leverage, protection
- On-site visits
- Government considerations... host country approval, both sides

# Portfolio Management

## **Constantly changing, ignore at your risk**

- Identifying internal needs: volume, vintage, quality
- Discounting anticipated tonnes (build in contingency)
  - Quality (compliance), Delivery risk
- Diversification
  - Project category
  - Source geography
  - Instrument type – VERs, CERs, allowances, etc.
  - Transaction structure – options, forwards



# Financial Accounting

## Large internal issue, shortage of tools & precedent

- Operating expense versus Capital
- Differentiate operating versus capital
  - Legal costs, Development costs
  - Monitoring and Verification
  - Acquisition terms
- If capital, how value?
  - Cost of acquisition
  - Mark to market... what market??

# Organizational Issues

**Regardless of location, acquisition team must be linked to bus. P&L**

→ Offsets activities resemble:

→ Sustainable Development

→ Trading & Marketing

→ Corporate Development

→ Need to know:

→ Evolving rules, array of markets and products, trading elements, project management, risk management, project development, strategic direction

# So What

- Hedging strategy differentiated by region
- Multiple product acquisition strategy oriented by timing and regulatory clarity
- Increased scale of acquisitions recognizing overhead
- Tighter linkage to projected business requirements (existing & future)

# Ancillary Benefits

Business support

Reinforce SD Identity

Investment Community Recognition

Shareholder value

Nat'l & Int'l negotiations

Policy Influence

Preparedness to Respond

New projects requiring offsets

# Contact Information

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