



## Is Rachel Notley Killing TransAlta Corporation?

### Description

It's been a frustrating 12 months for **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) and its shareholders. Since this time last year, they have had to deal with falling power prices, an unfavourable election result, and a slashed dividend, among other issues. To top it all off, the shares have fallen by nearly 50%.

And TransAlta just got what seems like some more bad news. On Monday, **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) announced it would end power-purchase agreements (PPAs) with three coal-fired power plants. Two of those plants are entirely owned by TransAlta, and the company has part ownership of the third as well.

So why exactly did TransCanada do this, and what does it mean for TransAlta?

### Is Rachel Notley to blame?

TransCanada claims that it is ending the PPAs because of new environmental regulation put in place by Alberta's NDP government, led by Premier Rachel Notley. As put by Bill Taylor, one of TransCanada's executive vice presidents, "The agreements contain a provision that permits the PPA buyers to terminate the PPAs if there is a change in the law that makes the agreements unprofitable."

Leader of the Wildrose Party Brian Jean pounced, claiming that "Today's announcement shows NDP policies are making more parts of our energy sector unviable and on an accelerated timeline." He also called this the first domino to fall for workers in the electricity industry.

### Not as bad as it sounds

Interestingly, TransAlta's stock price stayed flat on Monday despite this development. And when looking at the facts, this should not be surprising.

TransAlta's PPAs will actually be transferred to Alberta's so-called Balancing Pool, which was set up in the late 1990s to help manage the transition to a deregulated power industry. The Balancing Pool can buy the power itself, transfer the capacity to another distributor, or simply buy its way out of the

contract.

The last option may be the most favourable, since TransAlta could use the cash to pay off debt, and it would mean less coal-fired emissions in the province.

### **TransAlta has bigger problems**

TransAlta's investors can yell and scream at Rachel Notley all they want. But she is not the company's biggest problem.

TransAlta's real problem has been the decline of power prices in Alberta. To put this in perspective, power prices in Alberta averaged \$33 per megawatt hour in 2015, down from \$49 in 2014. This was cited as a main reason why profits decreased during the year. Worse still, TransAlta's numbers should deteriorate further when its Albertan PPAs expire in 2017.

To sum up, this is a company facing some big problems, and its situation may get worse still. There are better options for your portfolio.

#### **CATEGORY**

1. Investing

#### **POST TAG**

1. Editor's Choice

#### **TICKERS GLOBAL**

1. NYSE:TAC (TransAlta Corporation)
2. NYSE:TRP (Tc Energy)
3. TSX:TA (TransAlta Corporation)
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