

California Air Resources Board,

Sept 10th, 2012

In 2011, TransAlta Energy Marketing U.S. delivered 2500 GWh of electricity to the CAISO, helping to meet California's growing demand for energy and has been an active participant in the development of California's cap and trade program. It is in advance of further regulatory changes that we are requesting the California Air Resources Board recognize Coal Transition Power and Washington State's own approach to climate policy. We believe recognition can be demonstrated in two ways:

1. Exempt Coal Transition Power from accusations of Resource Shuffling
2. Change the Mandatory Reporting Regulation to include a uniformed default emission rate for electricity imports

Treatment of Coal Transition Power

In recent years, just as California has taken significant steps to reduce the greenhouse gas emissions from sources within its boundaries, so has Washington State. Early in 2011, TransAlta reached an historic collaborative agreement with environmental organizations, legislators and labor groups to transition away from coal at our 1340 MW generating station in Centralia Washington, effectively ending coal power in the state by 2025. As part of this agreement, a specific greenhouse gas reduction program was developed for the TransAlta's Centralia Generation Plant ("Centralia"). TransAlta is currently installing additional air pollution control technology, while agreeing to contribute \$55 million in support of energy efficiency and innovative energy technology development in Washington State. To date, we have invested more than \$300 million in pollution controls and continuous improvements at Centralia - creating one of the cleanest coal generating plants in the U.S. In response to these commitments, Governor Gregoire designated Centralia's power as a fundamentally unique product, Coal Transition Power, which warrants unique treatment under AB32. TransAlta has remained steadfast in our efforts to seek clarity on how Coal Transition Power will be treated under AB32 and feel we have provided adequate levels of legal interpretation and supporting documentation for your staff to make an upfront determination on how the sale of Coal Transition Power will be treated under Resource Shuffling provisions. We are seeking resolution to this issue.

Effect of Cap and Trade on External Power Markets

In association with our concerns regarding the treatment of Coal Transition Power in regards to Resource Shuffling, is a parallel request that the California Air Resources Board modify the regulatory language around how power imports are treated under California's cap and trade program. As a result of the program, power markets in the WECC will adapt to accommodate the externalities associated with carbon compliance. This price signal may risk the bifurcation of the PacNW power market, as low emission sources and Asset Controlling Suppliers, will be credited in the market with a premium that accounts for their increased value for import to California, regardless of where the power is destined. The California program treats Coal Transition Power intended for sale in the PacNW like conventional coal power, when it's not. California's program should not dilute the value of Coal Transition Power, especially when it is being sold in the PacNW. Our suggested regulatory change will limit the reach of California's cap and trade program on out of state power markets and allow Coal Transition Power to remain competitive in the PacNW. TransAlta encourages the California Air Resources Board to implement regional default emission averages for electricity imports. This would render all generators equal and respect each state's own methods of transitioning to cleaner sources of energy. The discrimination towards our plant by California's cap and trade program, through market bifurcation, ignores our contribution to helping Washington State meet its climate change goals.

We look forward to hearing that Centralia's Coal Transition Power will be exempted from accusations of Resource Shuffling and request California's program develops in such a way to ensure that the program will not undermined the commitments we have made to reach the mutually beneficial goal of reducing CO₂ emissions in the WECC.

Sincerely,

Calvin Johnson, Vice President Trading

