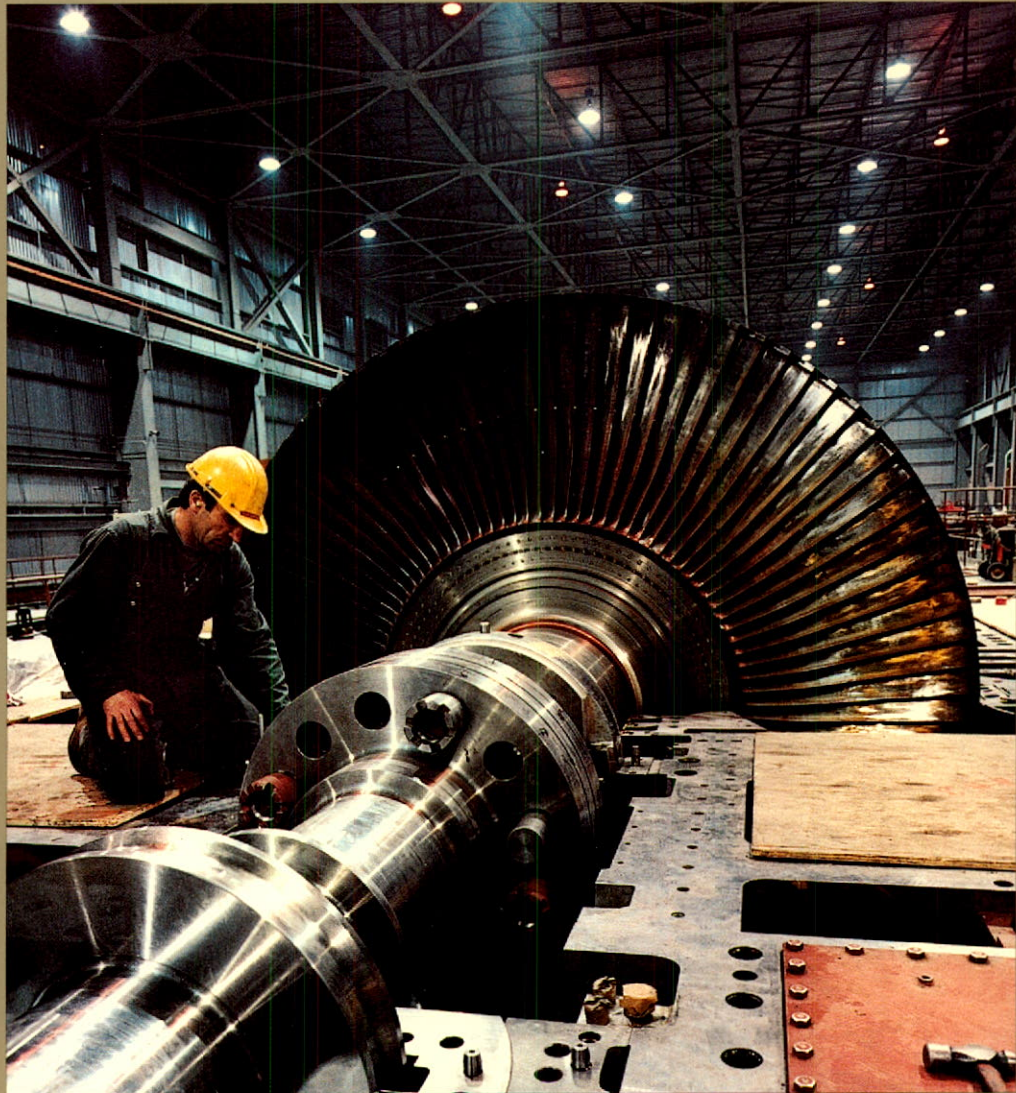




**TransAlta
Utilities Corporation**

Serving Albertans since 1911



Annual Report 1983

HOWARD H.
OF MAIL
APR 12 1984
WILLIAMS UNIVERSITY

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Cover Photo

Alignment and balancing checks took place during the year on the 400-megawatt turbine generator at the new Keephills Generating Plant. The first generating unit at this plant was commissioned in June 1983; the second unit is scheduled to start up in early 1984.

Shareholders' Meeting

Shareholders are invited to attend the Annual Meeting to be held on May 11, 1984 at 10:00 a.m. at the Palliser Hotel, 133 - 9th Avenue S.W., Calgary, Alberta. If you are unable to attend, please complete and return your proxy to assure representation at the meeting.

Financial Statistical Summary

A summary providing additional financial information on the Corporation over a ten-year period is available on request. Please direct inquiries to:

The Treasurer
TransAlta Utilities Corporation
Box 1900
Calgary, Alberta T2P 2M1
Telephone (403) 267-7110

1983 in Brief

□ Total capital expenditures for 1983 were \$491.9 million compared to \$622.0 million in 1982.

□ Electric energy sales increased from 14,998 million kilowatt-hours in 1982 to 15,854 million kilowatt-hours in 1983, an increase of 5.7 per cent. Peak demand in the winter of 1983-84 was 2,812 megawatts, compared to 2,542 megawatts experienced the previous winter.

□ The Corporation's coal mines produced a total of 11.6 million tonnes during 1983, as compared to 10.4 million tonnes the previous year.

□ Agreements were signed with Esso Resources Canada Limited for the acquisition of substantial additional coal reserves.

□ The two-line 500 kV transmission system from the Keephills Generating Plant to the Ellerslie Substation south of Edmonton was completed. This is the first 500 kV system constructed in Alberta.

□ Unit One, with 400 megawatt capacity, was commissioned at the new Keephills Generating Plant. Opening ceremonies took place in September 1983. Unit Two is scheduled to start up in early 1984.

□ Approval was received for two interim rate increases. The first increase, effective February 1, 1983 for consumption from January 1, 1983, resulted in a 12 per cent net increase to the customer. The second increase, effective November 1, 1983 for consumption from October 1, 1983, averaged 6 per cent net to the customer.

□ Construction continued at the Sheerness Generating Plant in which the Corporation owns a one-half interest. The first 400-megawatt unit is scheduled for completion by 1986.

□ Additional steps were taken toward the construction of a 500 kV transmission line to interconnect with B.C. Hydro in the Crowsnest Pass area of southern Alberta by 1985.

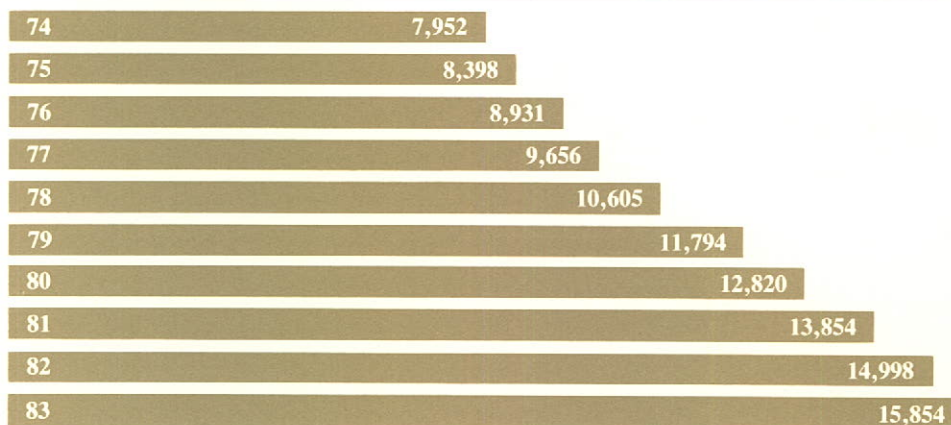
Primary business	Generation and distribution of electricity
Net generating capability	3,733 MW
Service area	198,000 sq. km
Number of direct customers	275,226
Number of indirect customers (served through wholesale contracts)	292,774
Number of staff positions (including Farm Electric Services Ltd.)	2,547
Number of common and preferred shareholders	53,066
Percentage of common and preferred shares registered in Canada	99.7%

Financial Results in Brief

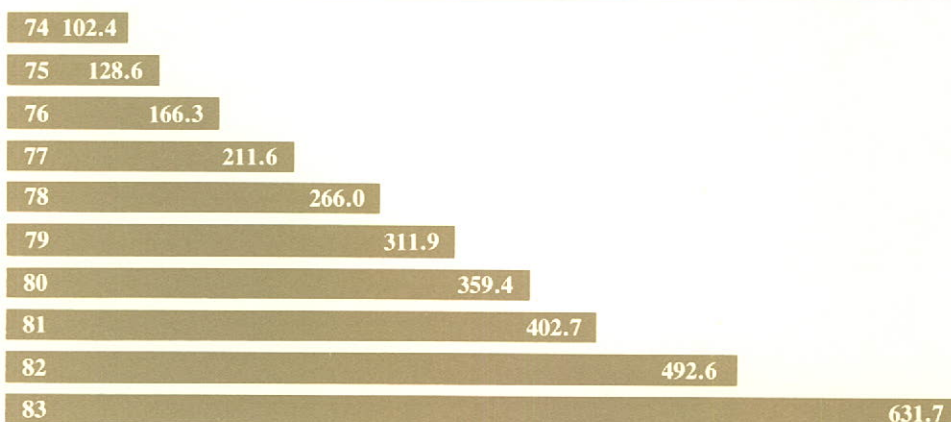
	1983	1982
Total Assets	\$3,295,713,000	\$2,820,652,000
Capitalization	\$2,808,317,000	\$2,377,781,000
Gross Revenue from Operations	\$ 631,724,000	\$ 492,556,000
Earnings Applicable to Common Shares	\$ 148,820,000	\$ 134,802,000*
Earnings per Common Share	\$2.74	\$2.61*
Dividends Declared per Common Share	\$1.38	\$1.20

* before extraordinary items

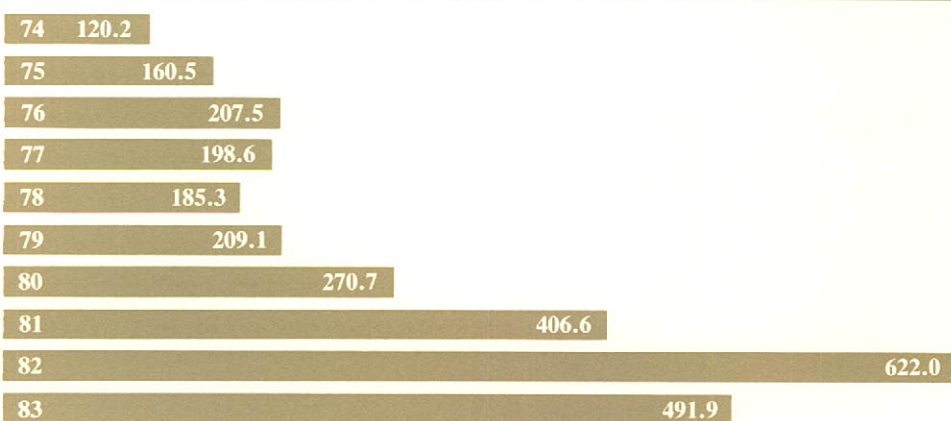
Electric Energy Sales (million kWh)



Gross Revenue from Operations (\$ million)



Expenditures on Property (\$ million)



Report to Shareholders

The year 1983 was again one of substantial growth for the Corporation. TransAlta Utilities continues to experience a level of load growth not seen in the rest of the country, although at reduced levels compared to past years. This growth is due in large part to major industrial customers now coming on stream who had committed to contracts before the slowdown in the economy.

This report summarizes the major activities undertaken by TransAlta Utilities during the year and describes the Corporation's response to economic conditions and the changing environment in which it operates. The Corporation is well positioned for the future, being able to accommodate a moderate level of growth or to respond to an accelerated pace should the economy pick up.

Due to the general slowdown in the economy and the uncertainty of load growth in the period ahead, the planning process for future power supply becomes difficult at best. However, it seems clear that the electric power industry will play a very significant role in Alberta's economic recovery and since its projects are capital intensive, they will have a major impact on new investment and employment in the province.

Earnings per common share were \$2.74 in 1983, compared to earnings of \$2.61 per common share in 1982 before extraordinary items. The increase in net earnings applicable to common shares is commensurate with the increase in the average common shareholders' investment and is in keeping with the rate of return approved by the Public Utilities Board. Effective January 1, 1984, the quarterly common share dividend was increased from \$0.34 to \$0.36 per share.

Gross revenue increased 28 per cent over 1982 to \$631.7 million; operating deductions were up 32 per cent to \$398.0 million.

TransAlta Utilities raised \$291.2 million in 1983 to finance ongoing capital programs and approximately \$240 million is expected to be raised in 1984 to ensure an adequate and reliable supply of electricity to the Corporation's increasing number of customers.

The most significant event during the year was the commissioning of Unit

One at the new Keephills Generating Plant. A second 400-megawatt unit is scheduled for commissioning in early 1984. Keephills is TransAlta's third coal-fired generating plant in the Wabamun Lake area. In 1983 TransAlta's three coal-fired plants accounted for 92.5 per cent of the Corporation's electricity production and together with the hydroelectric plants supplied approximately 74 per cent of provincial electric energy requirements through inter-utility economic dispatch.

Providing 7.5 per cent of TransAlta's electricity production, the Corporation's 13 hydro plants, located near major load centres, are also an essential part of the system, contributing to peak load generating demands.

The two-line 500 kilovolt (kV) transmission system from Keephills to the Eglar Substation near Edmonton has been completed. Each line will operate initially at 240 kV. These are the first 500 kV lines constructed in Alberta. A 500 kV transmission line is currently under construction in the southern part of the province. When completed in 1985, it will connect the Alberta system with the British Columbia Hydro and Power Authority system in the Crowsnest Pass area. This high voltage connection will enhance operating flexibility and reduce costs by deferring new generating capacity.

In September 1983 TransAlta Utilities entered into a purchase agreement and joint venture study agreement with Esso Resources Canada Limited, providing the Corporation with a 50 per cent undivided interest in the Judy Creek North coal field leases. The study will provide information related to the future development of an open-pit coal mine and thermal power plant in the Judy Creek area.

Coal continues to be the Corporation's primary fuel source. Over the past several years TransAlta Utilities has acquired substantial additional coal reserves in Alberta to ensure a low-cost fuel supply for future electricity production. The Corporation actively supports research aimed at making coal an even more efficient and cost-effective fuel resource. It is participating in studies of unique and innovative combustion technology to reduce sulphur and nitrogen oxide emissions and is also investigating the use of coal as a raw material for conversion

Photo, opposite page top: M. M. Williams (left) and A. W. Howard with original watercolour of the new Keephills Generating Plant. TransAlta commissioned this painting by Alberta artist Dennis Budgen to help commemorate the official opening of the plant.

Photo, opposite page bottom: TransAlta's Board of Directors visited the Trades Training Centre in Red Deer in August. Part of the tour of the facilities was a live line barehand demonstration.

to gaseous and liquid hydrocarbons.

On December 14, 1983 the Energy Resources Conservation Board (ERCB) recommended to the Alberta Government that the in-service dates of the four generating units currently under construction at the Sheerness and Genesee sites be deferred. TransAlta Utilities and Alberta Power Limited are 50 per cent joint owners in the Sheerness Generating Plant, located approximately 150 kilometres northeast of Calgary. The Genesee Generating Plant, 70 kilometres west of Edmonton, is being constructed by Edmonton Power.

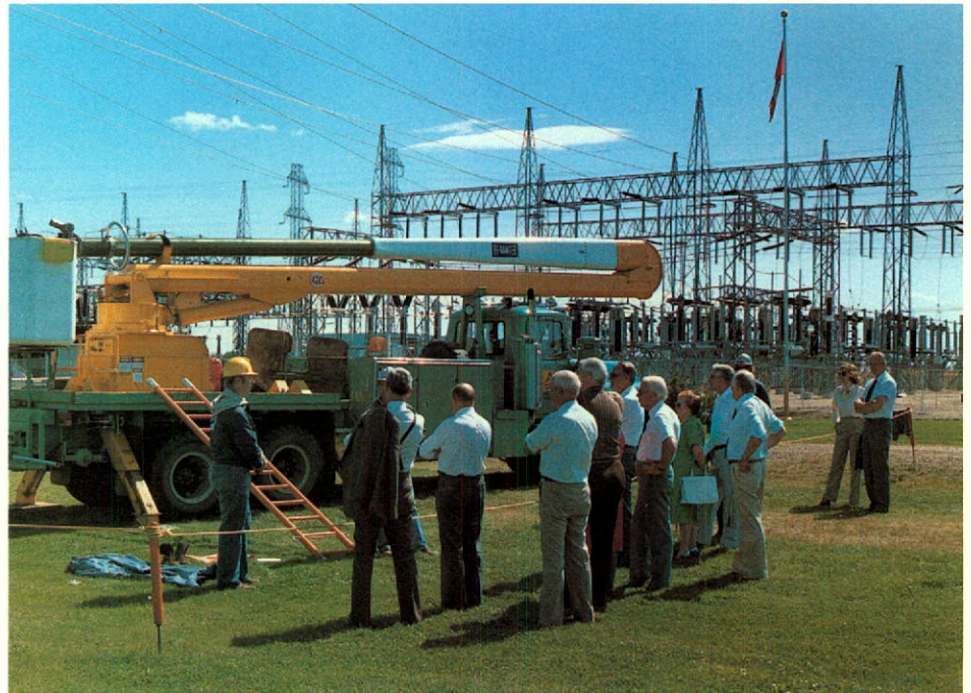
TransAlta Utilities and Alberta Power support the ERCB's decision report. The deferral of construction of these plants is necessary so that generating capacity additions in the province can more closely match the reduced load forecast of the Electric Utility Planning Council (EUPC). Composed of representatives from the major electric utilities in Alberta, the EUPC prepares electric load forecasts and recommends major generating and transmission requirements for the Province. (On February 22, 1984 the Alberta Cabinet announced its approval of the commissioning dates as recommended by the ERCB.)

TransAlta Utilities, Alberta Power and the Government of Alberta are conducting joint studies to determine the feasibility of utilizing the hydro-electric potential of the Slave River. The project area is located in northeast Alberta bordering the Northwest Territories, some 750 kilometres north of Edmonton.

The relocation of Calgary staff from leased space into TransAlta Two, the new office building adjacent to TransAlta One, commenced late in 1983. The two buildings will consolidate the Corporation's head office operations.

TransAlta Resources Corporation, a subsidiary of TransAlta Utilities, experienced increased activity during 1983. TransAlta Resources was established in 1981 to segregate investments from the operations and financing of TransAlta Utilities.

As a division of TransAlta Resources, a new business venture called TransAlta Energy Systems has been undertaken to design, market, install and maintain microprocessor-based building



control systems. These energy management systems are designed to reduce energy costs, improve occupant comfort and optimize building operating efficiency. Another recent investment by TransAlta Resources involves a venture to provide consulting services and develop computer hardware and software for improvement of office systems compatibility and productivity.

TransAlta Resources has arranged a term loan with a Canadian chartered

bank and has issued short-term commercial paper. An offering of 8% First Preferred Shares, Series B, raising approximately \$70 million has been completed. In conjunction with a rights offering by TransAlta Utilities, an additional \$19.2 million was raised through the sale of warrants of TransAlta Resources entitling holders to purchase shares of Canadian Utilities.

Exercise of these warrants is expected to result in the disposal of substantially all of the interest of TransAlta Resources in Canadian Utilities Limited by December 15, 1987. Such disposition is in accordance with an August 1982 agreement between TransAlta Utilities and Canadian Utilities for the divestiture of interlocking equity ownership positions.

The Corporation received approval from the Public Utilities Board (PUB) for two interim rate increases during 1983, which averaged 12 per cent and 6 per cent net to the customer. Both increases were necessary to give TransAlta an opportunity to recover its approved revenue requirement for 1983. Start-up of the Keephills Generating Plant in 1983 was the major reason for the increased revenue requirement. Construction costs for Keephills have been accumulated over the six-year construction period and under Alberta regulatory legislation can only be included in rate base when the plant starts operating.

The operations of the Alberta Electric Energy Marketing Agency (established by the Alberta Government in 1982) had an impact on TransAlta's customers for the first time. The Agency's operations are directed toward reducing disparity between the charges of high and low cost electric energy producers in the province. TransAlta's charges had to increase since it is the lowest cost power producer in Alberta.

In order that TransAlta customers would not immediately experience the full increase in charges due to the operations of the Agency, the Alberta Government established a temporary shielding program. Until September 1983, the Government fully shielded TransAlta customers from any increase. However, the partial removal of the shielding in September 1983 resulted in TransAlta having to apply to the PUB for a special levy which increased customers' charges by 2.5 per cent at that time. Further increased charges due to the Agency's operations are anticipated as the shielding is removed.

The economic recession being experienced in Alberta has had an impact on TransAlta's operations and revenues, and general economic recovery may lag that of other provinces. However, there are indications that the recession has begun to turn around. While TransAlta has responded quickly and appropriately to the downward shift in the economy, the Corporation is well positioned to respond to future growth. Load is expected to grow more moderately, but the long-term de-

velopment of the province and its abundant resources should continue as Canadian and international markets expand.

In the meantime, the Corporation is seeking new opportunities in these changed economic circumstances. The diversification of TransAlta Resources, mentioned earlier, is one such way to promote the continued well-being of the Corporation. For the utility operation, capital budgets have been reduced by deferring projects, but only to the extent that the quality of service to our customers will not be adversely affected. Operations are continually scrutinized for further cost-cutting.

Productivity has always been an important aspect in all areas of the Corporation. Already at a high level, that productivity will be further enhanced with the increased emphasis on the use of computers throughout all departments.

At the Annual Meeting in May 1983, R. T. Scurfield retired from the Board. His fellow Directors and Management wish to record their appreciation for his valued contribution and advice. G. J. Maier, President and Chief Executive Officer of Bow Valley Industries Ltd., was elected to the Board of Directors at that meeting.

Providing reliable service at the lowest cost has been a long standing commitment of the Corporation. Our success in this regard depends heavily on the dedication and efforts of our employees. We express our sincere appreciation to our employees, particularly under the current difficult economic conditions.

Our success also depends on the continued support of the investors who supply the funds and our customers for whom the business exists.

The foregoing, together with the following reports, are respectfully submitted on behalf of the Board of Directors.

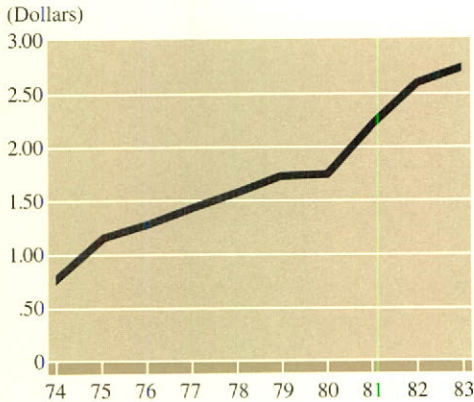


A. W. Howard
Chairman of the Board

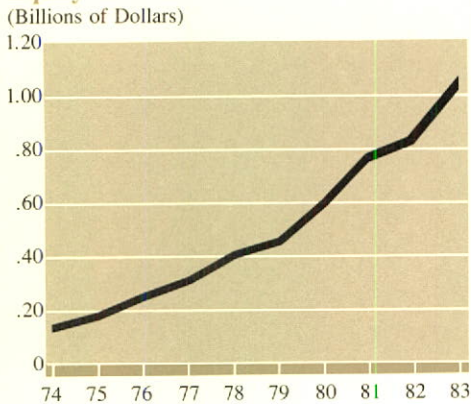


M. M. Williams
President and
Chief Executive Officer

Earnings per Common Share 1974-83



Common Shareholders' Equity 1974-83



The two graphs above show the Corporation's earnings per common share and common shareholders' equity over the last ten years. While earnings per common share have risen steadily, so has the increase in common shareholders' equity. This reflects the high level of growth which the Corporation has experienced over the decade as well as the increased capital requirements which have been necessary in order to build new facilities to meet customer demand.

February 14, 1984

Corporate Profile

The largest investor-owned electric utility in Canada, TransAlta Utilities provides over two-thirds of Alberta's electrical requirements. Its active subsidiaries include TransAlta Resources Corporation, TransAlta Fly Ash Ltd., Kanelk Transmission Company Limited and Farm Electric Services Ltd. Incorporated under the laws of Canada, and Canadian-owned, the Corporation completed its first generating plant at Horseshoe Falls in 1911.

Customer Service

By the mid 1920s, the Corporation had begun an expansion program to provide central station service 24 hours a day. Expansion has continued over the years and the Corporation now supplies approximately 600 cities, towns, villages and hamlets, as well as farms and other customers in the surrounding rural areas.

Generation

The Corporation owns and operates three coal-fired plants and 13 hydro-electric plants, located near major load centres. These plants have a total nominal net generating capability of 3,733 megawatts, the operations of which are combined to achieve minimum overall cost of power. The large coal-fired units supply the base or continuous load, while the hydro plants provide additional requirements, particularly during peak load periods.

Construction is continuing at the coal-fired Keephills Generating Plant and the jointly owned Sheerness Generating Plant. The first 400-megawatt unit at Keephills was commissioned in 1983, with the second unit expected to start up in early 1984.

Mining

The Corporation has provided most of its own fuel requirements since 1962. It owns and operates two coal mines which produced about 11.6 million tonnes in 1983. Since the early 1960s the Corporation has been active in reclamation and to date has successfully reclaimed 838 hectares (2,069 acres) of land.

Automation

The 13 hydro-electric plants, comprising 26 unattended generating units, are operated from a control centre 72 kilometres west of Calgary. This centre handles load dispatching for all the units, directs the operation of the main trans-

mission system and controls the majority of the switching points. By late 1984, these activities will be transferred and consolidated with electric system operations in a new system control centre.

Transmission

The Corporation owns over 62,500 kilometres of transmission and distribution lines. For efficiency and reliability, the system is interconnected with all major power plants in Alberta and with the system in British Columbia. Through a tie with B.C. Hydro, the Corporation is also indirectly connected with the power pool of electric utilities in the northwestern United States.

Regulation

As an investor-owned utility, the Corporation's operations are subject to various provincial regulatory bodies.

In addition to approving the Corporation's financing, the Public Utilities Board approves rates for electric service. These rates are based on the revenue requirement needed to cover all operating expenses, as well as to provide an opportunity to earn a return that will attract the capital necessary to finance the Corporation's large construction programs. The Board's decisions are final and may only be appealed to the courts on a matter of jurisdiction or law. The use of a future test year and interim rates to cover projected costs of service, with consideration to increases in all costs including rate of return, is an important progressive feature of Alberta rate regulation. This allows the Corporation to meet large capital demands in highly competitive and unstable financial markets.

The Energy Resources Conservation Board approves construction of transmission lines, generating plants, coal mine developments and service area changes. Applications for construction must be filed with the Board months and sometimes years before the facilities are required. Environmental impact statements and plans to minimize any environmental impact, such as land reclamation programs, must also be presented. The Board's decisions on generating plant are subject to final approval through Order-in-Council by the Alberta Government.

The Corporation is subject to the provisions of the Electric Energy Marketing Act, which resulted in the establishment of the Alberta Electric Marketing Agency in 1982. The Agency is intended to reduce electric rate disparities throughout the Province.

Mining



Photo above: New 146-tonne coal hauler.

Photo below: Dragline under construction.



a 122-metre boom commenced in 1983 at the Highvale Mine. The commissioning of this machine in October 1984 will bring the total number of draglines at the two mines to six. During 1983 TransAlta also added three 146-tonne coal haulers to its fleet. These haulers, with unitized body construction, are the only ones of their type in Canada and demonstrate considerable maneuverability.

Reclamation

The Corporation's land reclamation program has been underway for more than 15 years. Approximately 84 hectares (207 acres) were seeded to hay crops this year, bringing the total amount of land successfully reclaimed since mining started to 838 hectares (2,069 acres).

During 1982 the Alberta Government instituted a land reclamation requirement at the Highvale Mine to strip and replace existing topsoil and subsoil from a minimum of 0.7 metres up to a maximum of 1.7 metres. This requirement has resulted in 1983 reclamation costs of approximately \$42,000 per hectare (\$17,000 per acre). These costs are somewhat less than those experienced in 1982 because of the Corporation's improved soil handling and replacement methods.

In cooperation with the Alberta Government, field reclamation trials established in 1982 were continued in 1983. Results collected for at least five years starting in 1983 will be used to finalize the replacement subsoil depths required at the Highvale Mine.

Coal Reserves

In September 1983, the Corporation purchased from Esso Resources Canada Limited a 50 per cent undivided interest in Esso's Judy Creek North coal leases and a 100 per cent interest in a coal lease covering 360 acres in the Highvale Mine permit area. Under a joint venture study agreement with Esso Resources, the Corporation is involved in a feasibility study to examine a possible open pit coal mine and thermal power plant adjacent to the Judy Creek North coal field. The Judy Creek reserves are located 160 km northwest of Edmonton. The timing of the project will depend on the growth in demand for electricity in the province and the share of that demand to be supplied by thermal generating plants. Over the past several years the Corporation has acquired substantial additional coal reserves in Alberta to ensure a low-cost fuel supply for future electricity production.

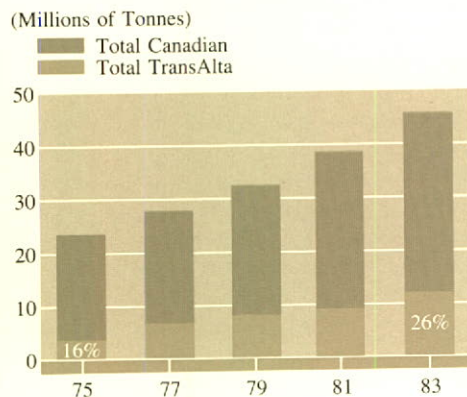
The Corporation's coal mines produced a total of 11.6 million tonnes of coal during 1983. Of this amount, the Highvale Mine produced 9.6 million tonnes to fuel the Sundance Generating Plant and the new Keephills Generating Plant. Following commissioning of the second unit at Keephills in 1984, Highvale is expected to produce approximately 11 million tonnes a year. At the Whitewood Mine north of Wabamun Lake, two million tonnes of coal were produced in 1983 to supply the Wabamun Generating Plant. The Highvale and Whitewood Mines constitute the largest coal-mining operation in Canada. There are approximately 657 million tonnes of recoverable coal reserves at the two mines.

With the start-up of the new Keephills Generating Plant, it was necessary to open a new pit at the Highvale Mine to provide the additional coal requirements. Increases in coal production, depth of overburden and the distance between the mine and the generating plants have required the acquisition of additional equipment and coal haulers.

New Equipment

Erection of a new Marion 8750 dragline with a 69-cubic-metre bucket and

Total Canadian versus TransAlta Coal Production



The graph above shows the Corporation's coal production compared to total Canadian production. TransAlta's coal mining operation is the largest in Canada. In 1983 TransAlta accounted for 26 per cent of total Canadian coal production.

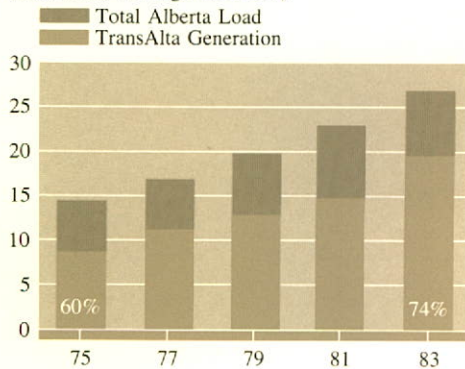
Generation

The new Keephills Generating Plant. The first of two 400-megawatt units at the coal-fired plant was commissioned in June 1983.



TransAlta's Generation versus Total Alberta Load

(Thousands of Megawatt-hours)



In 1983 the Corporation's total generation amounted to 19,541 million kilowatt-hours including sales to its customers and to other Alberta utilities. That amount was approximately 74 per cent of the total load of 26,457 million kilowatt-hours in the province.

During 1983, electric energy sales increased to 15,854 million kilowatt-hours from 14,998 million kilowatt-hours in 1982, an increase of 5.7 per cent. While this level of growth was lower than in recent years, reflecting the slowdown in the Alberta economy, it was still much higher than other electric utilities experienced in the rest of Canada. Load growth for the next four years is expected to continue at about six per cent annually. Peak demand for the winter of 1983-84 was 2,812 megawatts, compared to 2,542 megawatts the previous year.

Total capital expenditures for 1983 were \$491.9 million, of which \$310.6 million were spent on generating facility construction, environmental equipment and mining operations. With completion of both units at the new Keephills Generating Plant by early 1984, capital expenditures for 1984 are expected to decrease to some \$360 million from the record levels of the last two years.

Keephills

The most significant event during 1983 was the start-up of the first generating unit at the Keephills Generating Plant. Unit One of this plant, located just south of the Corporation's Sundance

Generating Plant, was commissioned in June 1983, with the opening ceremonies taking place on September 7. Government representatives, including the Alberta Minister of Utilities and Telecommunications, the media, local community members and employees were in attendance. The second 400-megawatt unit at Keephills is expected to start commercial operation in early 1984.

Keephills is required to supply growing power demand and its start-up constitutes a newsworthy milestone. Moreover, when growth in demand warrants, Keephills can be expanded by additional generating units.

Keephills is the first generating plant commissioned at a new location by the Corporation in over 10 years, with prior expansion during the 1970s occurring at Sundance. Besides utilizing the most modern and efficient technology available, the completion of the plant also demonstrates the success of public participation. The relocation of the Hamlet of Keephills, a joint effort on the part of the community and the Corporation, was a first for the province.

Sheerness

An application by Alberta Power Limited, supported by TransAlta Utilities, to defer the commissioning dates of Sheerness Units One and Two as well as two units of Edmonton Power's Genesee Generating Plant was recommended for approval to the Alberta Government by the Alberta Energy Resources Conservation Board on December 14, 1983. The Alberta Cabinet announced its approval of the revised commissioning schedule on February 22, 1984.

Unit One at Sheerness will be delayed six months and will go into operation in January 1986. Unit Two will go into operation in July 1987, rather than July 1986. The first Genesee unit will be deferred from November 1986 to June 1988 and the second unit from August 1987 to February 1989. The request for delay of the commissioning dates of these four units was based on the decrease in load growth projected by the Alberta Electric Utility Planning Council in its most recent forecast of electric demand and energy for the Alberta Inter-connected System. TransAlta is a 50 per cent co-owner with Alberta Power in the Sheerness project.

As a result of the operation of the Alberta Electric Energy Marketing Agency, the rates of the Corporation's customers are directly affected by the other utilities' generating and transmission costs. Accordingly, TransAlta is taking an increased interest in the activities of the other generating utilities in the province, since higher costs for those utilities will likely result in increased rates for TransAlta customers as well.

Wabamun

The conversion of Unit One at the Wabamun Generating Plant from gas to coal-fired operation was completed in the fall of 1983. All of TransAlta's thermal generating units are now coal-fired, with natural gas only required for start-up and emergency purposes. The conversion of Unit One, which was originally commissioned in 1958, ensures a more active role for the unit, demonstrates a commitment to cost-effective utilization of resources, and reflects the wisdom of the Corporation in acquiring low-cost coal reserves beginning in the 1950s.

Fly Ash

In October 1983, TransAlta Fly Ash Ltd. entered into a joint venture with Canada Cement Lafarge Ltd. to produce and market fly ash. Under the agreement,

TransAlta Fly Ash is responsible for all fly ash production activities, including quality control and preparation for distribution by rail and truck. Canada Cement Lafarge has the exclusive rights to market the ash and is responsible for distribution and marketing activities, using its existing infrastructure in Western Canada. Prior to the agreement TransAlta Fly Ash marketed the Corporation's fly ash. The revenue from the venture reduces ash disposal costs.

Emission Control

The Alberta Government has adopted the new federal guidelines to strengthen existing control of sulphur and nitrogen oxides emissions. Under the new standards, the utility industry may be required to introduce flue gas desulphurization equipment on most new generating units, at substantial additional cost, even though TransAlta's coal has a very low sulphur content. For some time now the Corporation has been studying a new technology to reduce these emissions using a combustion technique being developed by Rockwell International Corporation of California. The application of this technology is expected to be substantially lower in cost than currently available alternatives and is well suited to Alberta coals. As the technology is still experimental the Corporation applied for provincial funding assistance in a demonstration project which would test up to three combustors over a three-year period at the Wabamun Generating Plant. This would be the first commercial test of the combustor.

Slave River

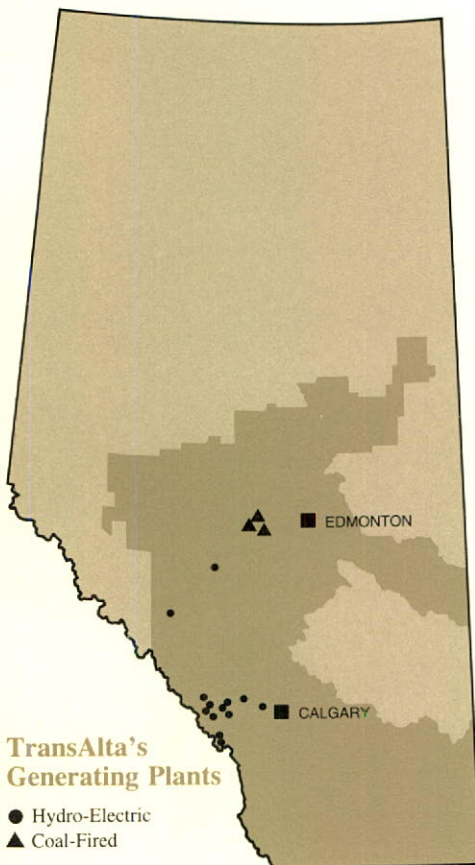
The Corporation is participating with Alberta Power and the Alberta Government in the early planning phase of the Slave River Hydro Development in north-eastern Alberta near the Northwest Territories border. Studies are being carried out to assess the socio-economic, environmental, engineering and financial feasibility of the project.

Dunvegan

The Corporation and Alberta Power Limited, through the Electric Utility Planning Council, have completed some geo-technical studies of the Dunvegan site on the Peace River on behalf of the Alberta Government. The studies were tabled in the legislature in the fall. The Government has indicated no plans for further studies of this potential hydro site at this time.

Photo, opposite page top: Len Winder, Shift Supervisor at the Keephills Generating Plant, in the control room for Units One and Two. The boiler and auxiliary control board for Unit One is shown here in the foreground, with the turbo-generator control board for Unit One directly behind Len. The control boards for Unit Two, not shown here, are mirror images of those used for Unit One.

Photo, opposite page bottom: Marshall M. Williams, President (left) and the Honourable R. J. Bogle, Alberta Minister of Utilities and Telecommunications, at the opening ceremonies for the new Keephills Generating Plant.



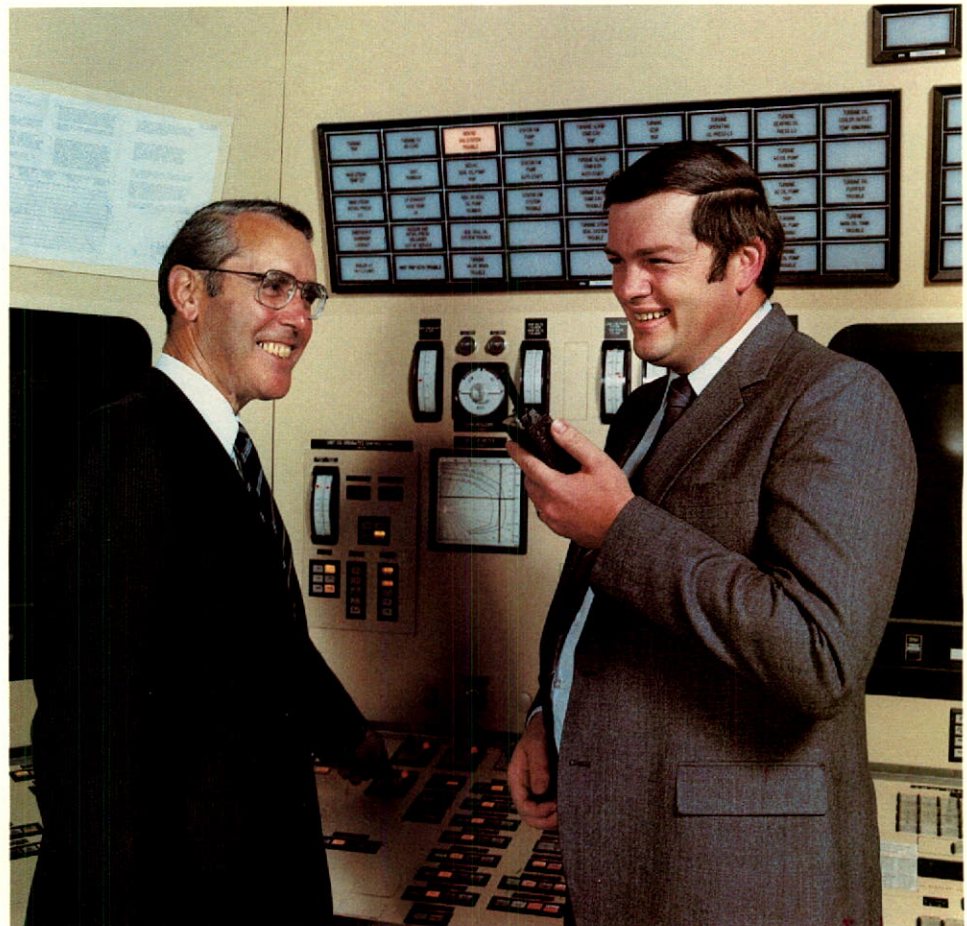
Research

The Corporation is actively investigating and monitoring alternative energy resources and related processes. Wind generation, in particular, has come under close examination. TransAlta is one of the sponsors of a project to test water pumping capabilities for irrigation at a site near the Lethbridge Research Station. The test program will run until May 1985; its results will be made available through the Alberta Research Council's Solar and Wind Energy Research Program to farmers, ranchers, manufacturers and other interested parties. TransAlta has also entered into a contract with the Alberta Research Council to carry out a "wind prospecting" study at various existing hydro plant locations west of Calgary. The study will monitor wind data at selected sites and examine the feasibility of either generating electricity directly through wind power or using wind power for water pumping in pumped storage schemes.

TransAlta is exploring co-generation opportunities with interested industrial customers whereby electricity could be generated efficiently and economically as a byproduct of an industrial process. A proposal has been submitted to a customer for a joint study to evaluate the feasibility of co-generation at a petrochemical plant. In another case, the Corporation is considering participating in preliminary feasibility studies for a co-generation project involving a mining company in the Hinton area. Moreover, during 1983 TransAlta established a policy and procedures to permit interconnection with customer-owned generating systems. One customer in Cardston has already interconnected a wind turbine, while discussions are being held with another customer.

A joint pilot project between TransAlta and Dome Petroleum Limited to recover carbon dioxide from the stack flue gases at the Sundance Generating Plant has proven technically feasible. The two companies continue their efforts to identify interested customers. One major oil company has shown an interest in the product.

Another project, to test the process of flash-hydro-pyrolysis, the extraction of gases and marketable liquid hydrocarbons from coal, has not yet been shown to be economic. The Corporation continues to monitor this process, as well as coal gasification, small hydro potential, geothermal and nuclear power, although none of these are economically attractive in Alberta at this time.



Transmission and Distribution to Customers

Photo, opposite page top: 500 kV transmission line construction; the first of its kind in Alberta.

Photo, opposite page bottom: Roy Nerdahl, District Manager (right), with a customer at the Onoway office.

Capital expenditures for transmission, distribution, substation and other equipment totalled \$181.4 million in 1983, compared to \$223.4 million in 1982.

500 kV

Both lines of the 500 kilovolt transmission system from the Keephills Generating Plant to the Eilerslie Substation south of Edmonton have been completed. These lines connect the Keephills Generating Plant to the Alberta Interconnected System, the transmission grid supplying power to the whole province. They are operating at 240 kV each until additional generating units are constructed in the Wabamun Lake area and connected to the transmission system, at which time their voltage will be raised to 500 kV.

A 500 kV line from the Langdon Substation southeast of Calgary to interconnect with B.C. Hydro at Phillipps Pass is currently under construction and will be completed and operate at 500 kV in the fall of 1985. Capable of transmitting up to 800 megawatts of electric power, the interconnection will enhance operating flexibility and reduce costs by deferring new generating capacity.

As load continues to grow in southern Alberta, it is also expected that a 500 kV line from the Wabamun Lake area to Calgary will be required in the mid-1990s.

Control Centre

A new Control Centre will consolidate and coordinate all TransAlta's electric system control and generation dispatch functions from Calgary. To date these functions have been carried out and coordinated from several separate operating centres in the province. The Centre, which will include the most recent computer-based equipment, will be commissioned in two phases. Phase one will relocate all existing operating centres into the one facility by the fall of 1984. The second phase, planned for 1985, will involve the introduction of sophisticated computerized systems. This will enable continuous analysis of electric system stability and economic automatic generation control.

Voltage Control

The Corporation is taking advantage of new solid-state power equipment technology to provide effective transmission control, thereby increasing transmission transfer capability. The new equipment, called a static var compensator, will be installed at the Langdon Substation by September 1985.

Customers

At the end of 1983, the Corporation was serving 275,226 customers directly and 292,774 customers indirectly through wholesale contracts.

Major industrial customers added to the system during 1983 include a second Dome Petroleum gas reprocessing plant at Empress, Novacor Chemicals' polyethylene plant at Joffre and Union Carbide's ethylene-glycol plant at Prentiss.

By the end of 1983, a total of 80 of the 210 Rural Electrification Associations (REAs) originally served by the Corporation had elected to transfer their distribution facilities to TransAlta. Some 18,000 farm customers previously served through REAs are now served directly by the Corporation.

Edmonton Area Changes

Following negotiations over a two-year period, a final agreement was completed early in January 1984 with regard to the transfer of service area to the City of Edmonton. The area includes some 4,500 customers. One condition of the separation settlement involves supplying Edmonton Power with 95 megawatts of power from the Keephills Generating Plant until September 30, 1986.

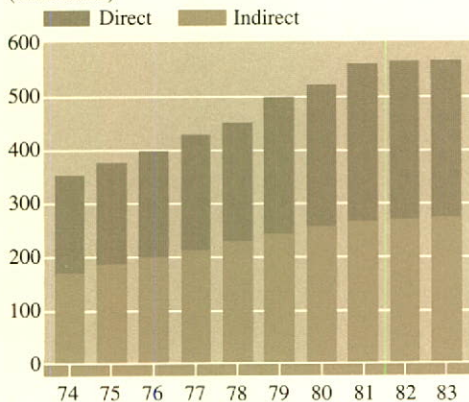
The sale of the Sherwood Park water system to the County of Strathcona was in the final stages of completion at year end. This sale completely divests the Corporation of any interest in municipal water systems.

Rates

The Corporation received approval for two interim rate increases during 1983. The first increase, effective February 1, 1983 for consumption from January 1, 1983, was for a 12 per cent net increase to the customer. The second increase, effective November 1, 1983 for consumption from October 1, 1983, averaged 6 per cent net to the customer. Before income tax rebate, the increases

TransAlta's Customers

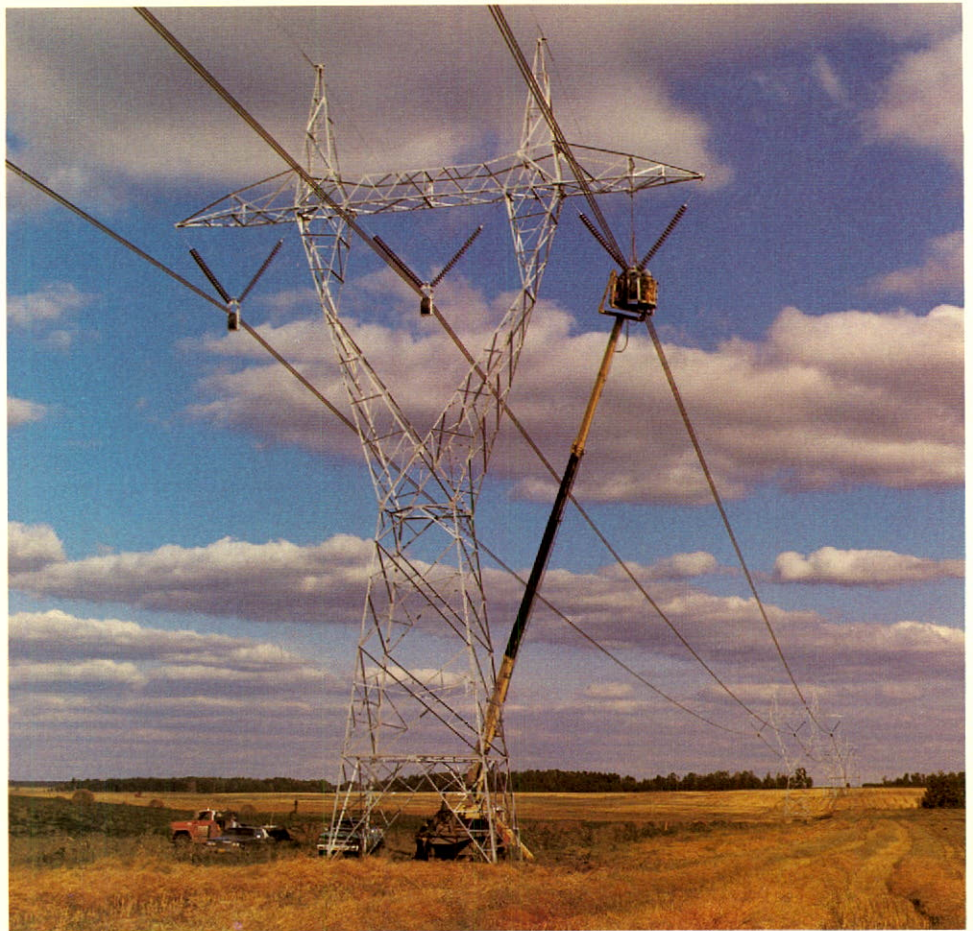
(Thousands)



TransAlta's high level of growth over the years can be attributed largely to an increase in the number of the Corporation's customers and increased consumption. In 1974 TransAlta served a total of 354,578 direct customers and indirect customers through wholesale contracts. By 1983 the total number of customers increased to 568,000, an increase of approximately 60 per cent over the ten-year period.

were 15 per cent and 14.1 per cent, respectively. Both increases were necessary to give TransAlta the opportunity to recover its approved revenue requirement for 1983. The accumulated costs of the Keephills Generating Plant and increased income taxes were the major reasons for the increased revenue requirement.

On November 16, 1983, TransAlta filed rates information and an application with the Public Utilities Board. The information provided an estimate of the forecast revenue requirement for the utility for 1984, while the application requested that interim rates currently in effect be continued during 1984. The application was approved on December 20, 1983. Continuation of the current interim rates is needed to cover the cost of items approved in the 1983 rate base. These rates are expected to be sufficient to recover the greater portion of the estimated revenue requirement for 1984. The Corporation anticipates that its 1984 revenue requirement will be determined by the Board by the fall of 1984, at which time the Corporation will review whether current rates are adequate to meet the approved 1984 revenue requirement.



Marketing Agency

The Alberta Electric Energy Marketing Agency had an impact on TransAlta's customers for the first time in 1983. With the Agency's intention to reduce rate disparities across the province, rates to TransAlta customers are expected to increase due to the averaging process, since TransAlta is the lowest cost power producer in Alberta. However, in the first 12 months of the Agency's operations, the Alberta Government fully shielded TransAlta customers from any increase due to the Agency's activities. When the Government removed part of the shielding in 1983, TransAlta found it necessary to apply for a 2.5 per cent special levy for all customers, reflecting the higher costs of the other producers. This increase was approved by the Public Utilities Board and went into effect September 1, 1983. It is expected that additional rate increases will be required as the shielding is further reduced. The Government has stated that by September 1987 all shielding will be removed. For further information on how the Agency functions refer to pages 26 and 27.



Energy Management

Under a new program TransAlta is offering energy audits and related services to commercial and industrial customers. The program is intended to help customers reduce energy costs and to encourage load management. Services include infrared thermography, electrical system analysis and comprehensive energy audits.

Public interest in energy management resulted in the distribution by the Corporation of over 100,000 brochures, booklets and data sheets during 1983. Response was also positive to the Corporation's introduction of energy management kits and material for grade schools and its participation in seminars for district home economists.

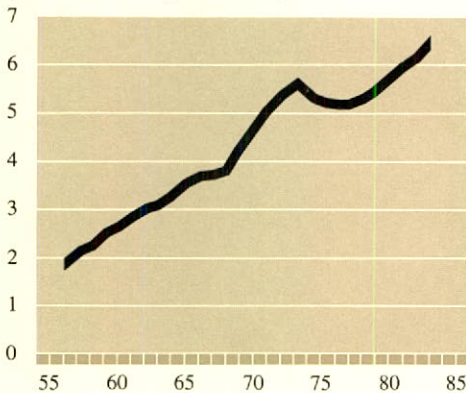
People and Productivity

Photo, opposite page top: Don White (left), Mechanical Engineer at the Sundance Generating Plant, with Lorne Kause, Maintenance Superintendent. Lorne's productivity improvement suggestion to rebuild coal mill table segments in situ has saved \$113,000 per year.

Photo, opposite page bottom: Don Hawn, Senior Area Serviceman, uses hazard board to teach safety message.

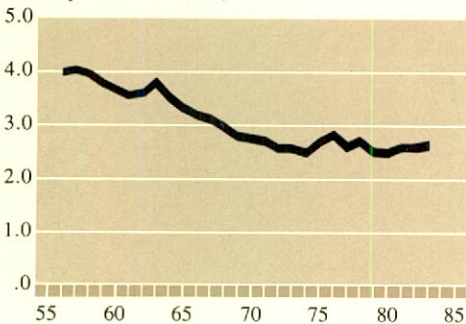
Electric Energy Output per Employee

(Thousands of Megawatt-hours)



Total Unit Costs in Constant Dollars

(Cents per Kilowatt-hour)



The graphs above demonstrate TransAlta's productivity achievements in two ways. The fact that electric energy output per employee has increased over the years can be seen in the top graph. The bottom graph demonstrates that TransAlta's actual costs, once the effects of inflation are removed, have decreased over the years. All aspects of the Corporation's operations are included in these costs — from labour to fuel, financing and operating costs. Thus this graph is an accurate overall measure of TransAlta's success in productivity improvement.

Throughout its history the Corporation has placed great emphasis on productivity and cost-effectiveness and believes its programs have been effective. As a direct measure of improved employee productivity, in 1960 2.7 million kilowatt-hours were produced and delivered to customers per employee. By 1970, 4.8 million kWh were delivered per employee, while in 1983, 6.4 million kWh per employee were achieved. This trend of productivity improvement is evident in other areas of operations as well.

The 1980s present an even greater challenge and greater need to keep costs as low as possible. As in previous years, TransAlta has planned capital projects to minimize capital and operating costs, while at the same time ensuring that an adequate quality of service is maintained. In addition, the Corporation continues to look for ways to cut operating costs.

Productivity

During the year the Corporation's Productivity Council, formed in 1981 and comprised of employee and management members, continued to seek further ways to involve employees in achieving productivity gains. Implemented in 1982, the Action Recommended Program, which encourages productivity improvement suggestions from all areas of operation, has received 175 suggestions to date, of which 54 suggestions have been implemented. For example, annual savings of \$113,000 per year have been achieved from the implementation of a suggestion by a plant employee to rebuild coal mill table segments in situ.

Computers

Productivity gains are generally achieved by making the best use of available resources. One of those resources is the computer and the Corporation is expecting computer applications to contribute further productivity gains in the future. More intensive and effective use of computers during 1983 has resulted in increased efficiency of operations, particularly in the Engineering, Purchasing, Consumer Services and Planning Departments. Other computer applications, including greater office automation, will provide further efficiencies in the coming years.

Staff

On December 31, 1983, the number of staff positions for TransAlta Utilities and Farm Electric Services Ltd. was 2,547 compared to 2,582 in 1982.

In 1983, 19 employees joined the Employees' 25 Year Club, which honours those men and women with 25 years or more of service to the Corporation. There are now 278 TransAlta employees who are members, representing an aggregate of 8,570 years of service.

New Office Building

In the fall of 1983, employees commenced relocation to the new office building, TransAlta Two. This new building is located adjacent to TransAlta One at TransAlta Place in downtown Calgary. Both buildings will be fully utilized by TransAlta staff. New building costs were significantly reduced by the timely decision to defer construction of half of the building. The building will consolidate the head office operations of the Corporation, which were being carried out at four locations in addition to TransAlta One.

Safety and Training

Corporate and individual effectiveness and the ability to work safely continue to be of prime importance to TransAlta. To this end, training in management, professional, technical trades and safety continues. Management and professional training emphasizes the utilization of team management concepts, employee participation and involvement in achieving common objectives. In addition to programs already under way,



technical training this year included a new program on 500 kV live line maintenance for linemen, the development of a journeymen power lineman upgrading program and a training program for operators of the new System Control Centre. These programs, combined with ongoing emphasis on safety, are aimed at providing the necessary job skills and knowledge to ensure an optimum level of corporate safety and performance.

Collective Agreements

The collective agreement with the TransAlta Employees' Association which expired December 31, 1983, was settled early in 1984. The one-year collective agreement with the International Brotherhood of Electrical Workers expired December 31, 1983 and negotiations are continuing to replace this agreement.



Finance

Photo, opposite page, from left to right: TransAlta Energy Systems employees Brian Scoble, Gary Holden and Richard Stout discuss building control systems with TransAlta Resources President Harry Schaefer.

Gross revenue from operations in 1983 was \$631.7 million, \$139.2 million more than in 1982. Additional electrical sales accounted for approximately 22 per cent of the increase, with the balance resulting from higher rates which were implemented on an interim refundable basis on January 1, 1983 and October 1, 1983.

Operating deductions amounted to \$398.0 million in 1983, \$95.9 million above 1982. These deductions consisted of operating expenses, fuel and purchased power, depreciation, and income and other taxes. Operating expenses increased by \$7.9 million, fuel and purchased power by \$0.9 million, depreciation by \$16.7 million, and income and other taxes by \$70.4 million. Interest charges and preferred dividends amounted to \$203.9 million in 1983, an increase of 24 per cent or \$39.9 million over 1982.

Earnings applicable to common shares were \$148.8 million in 1983, compared to \$134.8 million in 1982 before extraordinary items. Earnings per share were \$2.74, compared to \$2.61 before extraordinary items in 1982, and \$2.22 in 1981. The increase in net earnings applicable to common shares is commensurate with the increase in the average common shareholders' investment and is in keeping with the rate of return approved by the Public Utilities Board. Effective January 1, 1984, the quarterly common share dividend was increased from \$0.34 to \$0.36 per share.

Expenditures on Property

Total expenditures on property for 1983 amounted to \$491.9 million, compared to the \$622.0 million spent in 1982, reflecting the fact that the major portion of the cash required to build the new Keephills Generating Plant has already been spent. Expenditures on property for 1984 and beyond are expected to moderate to the extent that capital projects continue to be deferred in response to the slowdown in the economy.

Rates

TransAlta received approval for two interim rate increases during 1983 which have been described in detail on pages 10 and 11. In addition, the Corporation received approval for a 2.5 per cent special levy effective September 1, 1983. This levy results from the Alberta

Government's removal of part of the shielding which is intended to protect TransAlta customers from sudden increases in rates due to the activities of the Alberta Electric Energy Marketing Agency.

Financing

During 1983 TransAlta raised a total of \$291.2 million from external financing sources.

In April 1983 the Corporation raised \$100 million from the sale of 12% Secured Debentures. On July 19, 1983, 3.8 million 9% First Preferred Shares were issued for \$95 million.

As part of the divestiture agreement with Canadian Utilities, a rights offering was made to holders of common shares in November 1983. As a result of this offering, 3.1 million Class A Common Shares of TransAlta Utilities were issued for \$57.8 million.

Approximately 95 per cent of the \$1.40 Convertible Second Preferred Shares were converted into common shares during 1983, further strengthening the equity base of the Corporation.

The Dividend Reinvestment and Share Purchase Plan continues to be well received by shareholders. In 1983, a total of \$24.5 million was raised from the Plan through the participation of some 9,000 shareholders. Since its inception in July 1976, the Corporation has raised over \$100 million and issued over six million shares.

Bank borrowings and short-term notes, which reached a maximum amount outstanding of \$222 million in 1983, were used to meet short-term financing requirements. At the end of 1983, such short-term borrowings had been reduced to \$105.5 million.

Current Cost Accounting

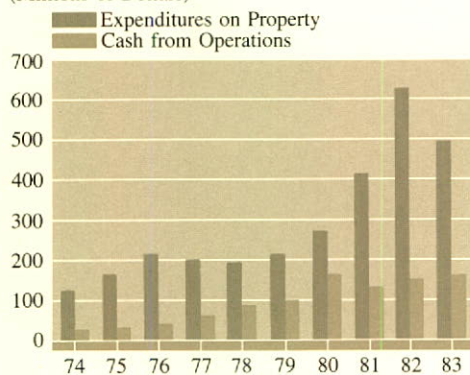
The Canadian Institute of Chartered Accountants has recently adopted recommendations for disclosure of supplementary information to report the effects of changing prices. Along with various other companies to whom the recommendations apply, TransAlta is experimenting with current cost disclosure this year. It is hoped that this information will be helpful and of interest to the shareholders. See pages 28 and 29.

Indexed Security Investment Plans

TransAlta Utilities common shares are qualified securities for purchase by Indexed Security Investment Plans.

Expenditures on Property versus Cash from Operations

(Millions of Dollars)



The graph above shows the expenditures which the Corporation made over the last ten years to build new facilities (expenditures on property). Also shown is the amount of cash which was raised from operations. Expenditures on property have escalated significantly in recent years. As a result, TransAlta has had to go to the financial markets to raise most of the cash needed for new construction, even though expenditures financed from operations have increased.

TransAlta Resources

TransAlta Resources Corporation, a subsidiary of TransAlta Utilities, was established in order to segregate the operating utility and investment activities of TransAlta Utilities. Its holdings include investments in Canadian Utilities Limited, AEC Power Ltd., and Canada Northwest Energy Limited.

Financing

During 1983, TransAlta Resources raised a total of \$152.1 million, \$62.9 million from the issue of long term debt, \$70 million of First Preferred Shares, Series B, and \$19.2 million through the issue of warrants.

In 1983, a further step was taken to separate the financing of TransAlta Resources from that of TransAlta Utilities. In this regard, TransAlta Resources has now arranged for its own term loan with a Canadian chartered bank and now issues its own short-term commercial paper. TransAlta Resources issued 2.8 million 8% First Preferred Shares, Series B, for \$70 million. This share offering represents the first public underwritten issue of TransAlta Resources.

TransAlta Resources' commercial paper and First Preferred Shares received favourable ratings independent of TransAlta Utilities by both bond rating agencies in Canada. TransAlta Resources Series B Preferred Shares were rated "AA (low)" by the Dominion Bond Rating Service and "P-2" by the Canadian Bond Rating Service. Commercial paper is rated "R-1 (middle)" and "A-1 (low)" by the Dominion Bond Rating Service and the Canadian Bond Rating Service, respectively.

Canadian Utilities

Both TransAlta Utilities and Canadian Utilities Limited have taken steps to divest themselves of their interlocking equity ownership positions as outlined in an agreement signed on August 3, 1982. Canadian Utilities has issued approximately 13 million warrants to purchase the same number of TransAlta Utilities' Class A Common Shares from Canadian Utilities on or before



November 1, 1987. In addition to the sale of 5,011,600 Class A non-voting shares in 1982, in 1983 TransAlta Resources issued warrants to purchase 3,142,500 Class A non-voting shares and 7,856,250 Class B common shares of Canadian Utilities on or before December 15, 1987. The full exercise of both sets of warrants will result in the sale of substantially all of each corporation's interest in the other.

Canada Northwest Energy

TransAlta Resources increased its investment in Canada Northwest Energy Limited in 1983. Common shares were purchased from another shareholder for \$17 million, increasing TransAlta Resources' existing common share ownership to about 15%. TransAlta Resources is the largest single shareholder in Canada Northwest. In May a \$15 million 8% convertible debenture was purchased. Upon conversion of all the outstanding convertible securities of Canada Northwest including the \$45 million 10% and \$15 million 8% convertible debentures held by TransAlta Resources, common share ownership of Canada Northwest by TransAlta Resources would be over 24%.

TransAlta Energy Systems

One business venture initiated this year under a new division called TransAlta Energy Systems is a program to design, market, install and maintain microprocessor-based building control systems. These customized energy management systems are intended to reduce energy costs, improve occupant comfort, and optimize building operating efficiency. Marketing of the systems will initially be carried out in Alberta.

Keyword

Another investment during the year by TransAlta Resources involved equal participation in a venture aimed at developing and marketing consulting services and computer hardware and software to improve office systems compatibility and productivity. This work is being carried out by Keyword Office Technologies Ltd., a Calgary firm.

Management's Responsibility

In management's opinion the financial statements have been properly prepared within reasonable limits of materiality and within the framework of accounting policies summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 14, 1984. Management is responsible for all information in the Annual Report and financial operating data in the report are consistent, where applicable, with the financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with management's authorization. These

systems are monitored by internal auditors who perform extensive tests and related procedures.

The financial statements in this report have been examined by Clarkson Gordon, independent Chartered Accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

In ensuring that management fills its responsibility for financial reporting and internal control, the Board of Directors is assisted by an Audit Committee, the majority of whose members are non-management Directors. The Audit Committee meets with management, the internal auditors and the external auditors to satisfy itself that each group is properly discharging its responsibilities and to review the financial statements. The internal and external auditors have full and free access to the Audit Committee.

Auditors' Report

To the Shareholders of TransAlta
Utilities Corporation:

We have examined the consolidated statement of financial position of TransAlta Utilities Corporation as at December 31, 1983 and the consolidated statements of earnings and reinvested earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1983 and the results of its operations and the changes in its

financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for taxes on income explained in Note 4 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Calgary, Canada
February 14, 1984

Consolidated Statement of Earnings and Reinvested Earnings

(in thousands except earnings per share)

	Year ended December 31	
	1983	1982
Gross revenue from operations:		
Electric	\$629,429	\$490,518
Water utilities	<u>2,295</u>	<u>2,038</u>
	631,724	492,556
Operating deductions:		
Operating expenses	137,404	129,545
Fuel and purchased power	28,440	27,564
Taxes, other than taxes on income	21,815	20,847
Depreciation	87,919	71,205
Taxes on income	<u>122,445</u>	<u>52,973</u>
	398,023	302,134
Operating income	<u>233,701</u>	<u>190,422</u>
Allowance for funds used during construction by component:		
Debt	39,768	33,723
Preferred equity	18,823	11,650
Common equity	<u>38,785</u>	<u>39,785</u>
Total allowance for funds used during construction	97,376	85,158
Equity income from investments	21,616	23,213
Earnings before financing charges and extraordinary items	<u>352,693</u>	<u>298,793</u>
Interest charges:		
First mortgage bonds	41,532	41,813
Other long term debt	82,871	56,234
Other	<u>12,971</u>	<u>12,452</u>
	137,374	110,499
Preferred share dividend requirements	66,499	53,492
	<u>203,873</u>	<u>163,991</u>
Earnings applicable to common shares before extraordinary items	148,820	134,802
Extraordinary items	<u>—</u>	<u>33,400</u>
Net earnings applicable to common shares	148,820	101,402
Common share dividends	<u>76,336</u>	<u>62,051</u>
Reinvested common share earnings	72,484	39,351
Opening balance of reinvested earnings	<u>348,373</u>	<u>309,022</u>
Closing balance of reinvested earnings	<u>\$420,857</u>	<u>\$348,373</u>
Average common shares outstanding	54,297	51,693
Earnings per common share:		
Before extraordinary items	\$2.74	\$2.61
After extraordinary items	\$2.74	\$1.96
Fully diluted earnings per common share:		
Before extraordinary items	\$2.54	\$2.46
After extraordinary items	\$2.54	\$1.89

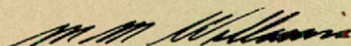
See accompanying summary of accounting policies and notes

Consolidated Statement of Financial Position

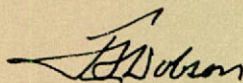
(in thousands)

	December 31	
	1983	1982
Assets		
Property Account:		
Land, buildings, plant and equipment	\$3,428,130	\$2,938,627
Less accumulated depreciation	545,049	455,597
	<u>2,883,081</u>	<u>2,483,030</u>
Investments:		
AEC Power Ltd.	10,358	10,358
Canada Northwest Energy Limited	115,194	78,592
Canadian Utilities Limited (after deducting reciprocal shareholdings of \$53,700)	108,117	113,222
	<u>233,669</u>	<u>202,172</u>
Current Assets:		
Cash	27	141
Accounts receivable	100,584	59,750
Materials and supplies at average cost	36,215	37,789
Prepaid expenses	1,439	1,385
	<u>138,265</u>	<u>99,065</u>
Deferred Charges:		
Financing costs	38,330	36,047
Other	2,368	338
	<u>40,698</u>	<u>36,385</u>
	<u><u>\$3,295,713</u></u>	<u><u>\$2,820,652</u></u>

On behalf of the Board:



M. M. Williams, Director



T. S. Dobson, Director

Capital and Liabilities

	December 31	
	1983	1982
Capitalization:		
Common shares	\$ 708,281	\$ 497,952
Contributed surplus	11,633	10,161
Reserve for rate adjustments	1,255	1,592
Reinvested earnings	420,857	348,373
Reciprocal shareholdings	(53,700)	(53,700)
Common shareholders' equity	1,088,326	804,378
Preferred shares	621,932	664,118
Long term debt	1,028,059	909,285
Minority interest	70,000	—
Total capitalization	2,808,317	2,377,781
 Current Liabilities:		
Bank loan and short term notes	105,497	101,184
Accounts payable and accrued liabilities	94,878	84,866
Income and other taxes payable	26,272	10,687
Deferred income taxes	—	12,273
Dividends payable	39,733	32,950
Accrued interest on long term debt	28,953	28,328
Current portion of long term debt	30,129	27,976
	325,462	298,264
 Deferred Credits:		
Deferred income taxes	42,265	40,930
Customer contributions	115,874	99,757
Hydro development contribution	3,795	3,920
	161,934	144,607
	\$3,295,713	\$2,820,652

See accompanying summary of accounting policies and notes

Consolidated Statement of Changes in Financial Position

(in thousands)

	Year ended December 31	
	1983	1982
Source of Cash:		
From operations —		
Earnings applicable to common shares before extraordinary items	\$148,820	\$134,802
Add net amount not involving cash	23,869	13,936
	172,689	148,738
Cash provided from operations		
Issue of common shares net of conversions and stock dividends	82,338	25,052
Issue of preferred shares	95,000	200,000
Issue of long term debt	176,784	361,623
Proceeds from Canadian Utilities Limited warrants and shares	19,169	51,600
Minority interest	70,000	—
Customer contributions	19,971	17,376
Increase in accounts payable and accrued liabilities	10,012	7,961
Other	5,305	(938)
	651,268	811,412
 Use of Cash:		
Expenditures on property —		
Production	278,427	346,857
Environmental	32,166	51,767
Transmission, substations, distribution and other	181,356	223,366
	491,949	621,990
Less allowance for equity funds used during construction	57,608	51,435
	434,341	570,555
Investment in Canada Northwest Energy Limited	32,025	2,450
Purchase of preferred shares	9,801	7,708
Repayment of long term debt	53,737	56,758
Dividends on common shares	74,258	60,413
Payment of deferred income taxes	12,273	40,298
Increase in accounts receivable, materials and supplies	39,260	18,925
	655,695	757,107
(Increase) decrease in bank loan and short term notes net of cash balances	\$ (4,427)	\$ 54,305

See accompanying summary of accounting policies and notes

Summary of Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada of which the significant policies are described below. These principles conform in all material respects with International Accounting Standards. The Corporation is engaged primarily in the production and sale of electric energy in the Province of Alberta which activity is classified as one segment for financial reporting purposes.

The Corporation is regulated by the Energy Resources Conservation Board pursuant to the Hydro and Electric Energy Act (Alberta) and the Public Utilities Board pursuant to Part II of the Public Utilities Board Act (Alberta). The Corporation and its hydro operations are also subject to the Provincial Water Power Regulations (Alberta). These Acts and Regulations cover such matters as rates, construction, operations and accounting.

The consolidated financial statements include the accounts of the Corporation and all its subsidiaries of which TransAlta Resources Corporation, TransAlta Fly Ash Ltd., Kanelk Transmission Company Limited and Farm Electric Services Ltd. are active.

TransAlta Resources Corporation holds non-operating utility assets and other investments. TransAlta Fly Ash Ltd. processes and sells fly ash gathered at the Corporation's coal fired generating plants. Kanelk Transmission Company Limited owns transmission facilities extending from the Corporation's hydro-electric plants on the Kananaskis River through British Columbia to the Crowsnest Pass in southern Alberta. Farm Electric Services Ltd. is a non-profit entity which organizes, constructs, operates and maintains, at cost, electric distribution systems owned by rural electrification co-operative associations.

Investments in AEC Power Ltd., Canada Northwest Energy Limited and Canadian Utilities Limited are held by TransAlta Resources Corporation and are accounted for by the equity method.

Financing Costs

Costs of financing are amortized by charges to expense as follows:

- Debt issues — over the lesser of the remainder of the original life or the estimated average life of the respective issues.
- Equity issues — over the lesser of 30 years or the estimated average life of the issue.

Gains or losses realized on the purchase of Corporation debt for sinking fund purposes are amortized over the remaining life of the issue. These policies are in accordance with the method of determining the Corporation's cost of capital for regulatory purposes.

Translation of Foreign Currency

Any long term debt payable in foreign currency is translated at the rate of exchange prevailing at the date of the statement of financial position. The resulting adjustment is amortized over the remaining life of the debt which is in accordance with the method used in determining the Corporation's cost of capital for regulatory purposes.

Foreign exchange gains of \$825,000 were amortized to income in 1983 (losses of \$563,000 in 1982) and at December 31, 1983 unamortized foreign exchange losses of \$5,719,000 (\$6,689,000 at December 31, 1982) were deferred and included in financing costs in the statement of financial position.

Taxes on Income

The Corporation's income tax accounting policy is the income tax allocation method.

Under the Public Utilities Income Tax Transfer Act (Canada) and enabling legislation passed by the Province of Alberta, 95% of the federal and 100% of the provincial income taxes paid by the Corporation attributable to its electric utility operations are rebated to its customers.

Customer Contributions

Contributions received from customers related to new service connections are credited to deferred revenue and are amortized to income over the expected terms of the revenue deficiencies. The composite rate of amortization is approximately 3% per annum.

Notes to Consolidated Financial Statements

(tabular dollar amounts in thousands)

1. Property Account

The land, buildings, plant and equipment are carried at cost. The Corporation provides for depreciation on a straight line basis using various rates as set by the Public Utilities Board (Alberta) based on depreciation studies prepared by the Corporation which result in an overall composite rate for 1983 of 3.92% (3.99% in 1982).

	Depreciation rates	December 31	
		1983	1982
Hydro production	2.45%	\$ 185,154	\$ 180,216
Thermal production including coal mines	3.44% - 3.89%	1,228,143	839,584
Environmental control	4.36%	262,005	173,703
Transmission lines, substations and distribution systems	3.54% - 4.58%	908,634	757,781
Other	various	173,233	106,074
Property under construction		670,961	881,269
		3,428,130	2,938,627
		545,049	455,597
Less accumulated depreciation		\$2,883,081	\$2,483,030

The Corporation capitalizes an allowance for funds used during construction at its cost of capital related to construction. The rate is presently 12.91% (13.08% in 1982) as determined by the Public Utilities Board (Alberta).

2. Investments

AEC Power Ltd. owns and operates the utilities plant which supplies electric energy and steam on a cost of service basis to the Syncrude Project for production of synthetic crude oil from the Alberta oil sands. The investment in AEC Power Ltd. represents one third of the outstanding shares (consisting of 50% of the voting common shares).

Canada Northwest Energy Limited is a natural resource exploration and development company with Canadian and international interests. The investment in Canada Northwest Energy Limited consists of common shares and \$60,000,000 of convertible debentures. An investment of \$17,025,000 in common shares and \$15,000,000 in an 8% convertible debenture was made in 1983. Upon conversion of all the outstanding convertible securities of Canada Northwest Energy Limited, common share ownership would be approximately 24%. The excess of the purchase price over the book value of the assets and liabilities acquired amounted to \$74,600,000 of which \$66,050,000 is being amortized by the unit-of-production method and the balance is being amortized straight line over a period of 5 years.

Canadian Utilities Limited, through operating subsidiaries, is mainly engaged in the generation, transmission, distribution and sale of electric energy, primarily in east-central and northern Alberta and in the production, purchase, transmission, distribution and sale of natural gas throughout Alberta. The investment in Canadian Utilities Limited represents an interest of approximately 22% which consists of 13% of the outstanding Class A non-voting shares and 31% of the outstanding Class B common shares. The excess of the purchase price over the book values of the assets and liabilities acquired amounted to \$54,400,000 and is being amortized straight line over a period of 40 years.

The Corporation indirectly owns approximately 4% of its own common shares since Canadian Utilities Limited owns approximately 20% of the common shares of the Corporation. Accordingly, the investment in Canadian Utilities Limited is reduced by \$53,700,000 which is the Corporation's pro rata interest in the cost of the Corporation's shares to Canadian Utilities Limited. The portion of the Corporation's dividends applicable to its equity interest in Canadian Utilities Limited is deducted from dividends and from equity income.

The Corporation and Canadian Utilities Limited have agreed to use their best business efforts to divest themselves of their reciprocal shareholdings. Warrants to purchase over 90% of the Canadian Utilities Limited shares held by TransAlta Resources Corporation were issued in 1983 for proceeds of \$19,169,000 which amount net of \$4,505,000 of income taxes has been deducted from the carrying value of the investment in Canadian Utilities Limited. These warrants are exercisable on or before December 15, 1987 for a gross consideration of approximately \$165,000,000. Canadian Utilities Limited has warrants outstanding which carry the right to purchase on or before November 1, 1987 substantially all of the common shares of the Corporation held by Canadian Utilities Limited. The exercise of substantially all of either of these warrants would eliminate all reciprocal shareholding adjustments.

2. Investments (continued)

The 1982 issuance of common shares from treasury by Canadian Utilities Limited at less than their recorded value in the Corporation's accounts and the subsequent sale of approximately 60% of the Class A non-voting shares held in Canadian Utilities Limited resulted in extraordinary charges against 1982 earnings of \$16,400,000 and \$17,000,000 respectively.

3. Capitalization

(i) Share capital

The authorized share capital consists of an unlimited number of Class A Common Shares, Class B Common Shares, First Preferred Shares and Second Preferred Shares, all without nominal or par value.

The Class A and Class B Common Shares are interconvertible on a share-for-share basis at any time and carry one vote per share.

The preferred shares, which are issuable in series, are cumulative and redeemable at the option of the Corporation at the subscription price together with a premium not in excess of the annual dividend except that certain series may not be redeemed before designated dates. Some series are retractable at the option of the holder on designated dates at the subscription price plus all accrued and unpaid dividends, if any. Each annual purchase fund is non-cumulative. Each annual mandatory sinking fund is cumulative and the Corporation may call additional shares through the operation of a non-cumulative optional sinking fund. All preferred shares carry one vote per share except the 9%, 12%, 12½%, 14.25% and \$1.40 Series which are entitled to one vote for each full \$100 of subscription price and the 7.70% and 8.64% Series which are non-voting unless the Corporation fails to pay certain dividends.

(ii) Common shares

	December 31			
	1983 (shares)	1982	1983 (amount)	1982
Issued and outstanding:				
Class A Common Shares.....	64,306,160	52,581,921	\$695,051	\$481,160
Class B Common Shares.....	1,224,042	1,835,011	13,230	16,792
	<u>65,530,202</u>	<u>54,416,932</u>	<u>\$708,281</u>	<u>\$497,952</u>
Issued during the year:				
For cash under the Dividend Reinvestment and Share Purchase Plan, the Customer Share Purchase Plan and the Employee Share Purchase Plan.....	1,239,515	1,538,464	\$ 24,516	\$ 25,052
As stock dividends on Class B Common Shares.....	104,258	98,998	2,078	1,638
On conversion of \$1.40 Convertible Second Preferred Shares.....	6,626,997	44,608	125,913	848
For cash by rights offering.....	3,142,500	—	57,822	—
	<u>11,113,270</u>	<u>1,682,070</u>	<u>\$210,329</u>	<u>\$ 27,538</u>

Had the 1983 conversions occurred at the beginning of the year, earnings per common share would have been \$2.61.

(iii) Other

The excess of the subscription price of the preferred shares cancelled over their purchase cost amounted to \$1,472,000 in 1983 (\$3,702,000 in 1982) and was included in contributed surplus.

In accordance with submissions by the Corporation to the Public Utilities Board (Alberta), reassessments if any, related to the determination of resource income for tax purposes and rate hearing costs net of income taxes will be charged to the reserve for rate adjustments as directed. During 1983 hearing costs of \$337,000 (none in 1982) were charged to this reserve.

Minority interest represents 8% preferred shares of a subsidiary which were issued on January 4, 1984 pursuant to an underwriting agreement dated November 22, 1983. At December 31, 1983 these shares were shown as issued capital and the proceeds were shown as a reduction of subsidiary debt. After December 31, 1987 the dividend rate may be adjusted at six month intervals. Between July 15, 1985 and January 1, 1988 the shares are subject to early retraction only upon the happening of certain events. On February 1, 1988 or on any August 1 or February 1 thereafter, the shares are retractable and redeemable at their \$25 per share subscription price plus any accrued and unpaid dividends.

TransAlta Utilities Corporation

3. Capitalization (continued)

(iv) Preferred shares

	Annual requirement	December 31			
		1983 (shares)	1982	1983 (amount)	1982
Issued and outstanding:					
First Preferred Shares					
No purchase or sinking fund					
4 % Series	—	24,924	25,728	\$ 2,492	\$ 2,573
4½ % Series	—	13,429	14,721	1,343	1,472
5 % Series	—	14,198	20,963	1,420	2,096
5.40 % Series	—	100	125	10	13
		<u>52,651</u>	<u>61,537</u>	<u>5,265</u>	<u>6,154</u>
Purchase fund					
7 % Series	\$300,000	111,101	115,093	11,110	11,510
7½ % Series	\$500,000	198,856	205,208	19,886	20,521
8¾ % Series	9,000 shares	293,899	302,899	29,390	30,290
7.44 % Series (1977)	9,000 shares	255,000	264,000	25,500	26,400
7.30 % Series	12,000 shares	340,000	352,000	34,000	35,200
7.44 % Series (1979)	9,000 shares	264,000	273,000	26,400	27,300
7.70 % Series	7,800 shares	228,800	236,600	22,880	23,660
8.64 % Series	5,400 shares	163,800	169,200	16,380	16,920
12 % Series (1)	50,000 shares	2,000,000	2,000,000	50,000	50,000
14.25 % Series (2)	100,000 shares	5,000,000	5,000,000	125,000	125,000
12½ % Series (3)	60,000 shares	3,000,000	3,000,000	75,000	75,000
9 % Series (4)	110,000 shares	3,800,000	—	95,000	—
		<u>15,655,456</u>	<u>11,918,000</u>	<u>530,546</u>	<u>441,801</u>
Sinking fund					
10 % Series	12,000 shares	185,760	197,864	18,576	19,786
9.80 % Series	8,000 shares	117,539	125,539	11,754	12,554
9¾ % Series	12,000 shares	209,642	221,842	20,964	22,184
		<u>512,941</u>	<u>545,245</u>	<u>51,294</u>	<u>54,524</u>
		<u>16,221,048</u>	<u>12,524,782</u>	<u>587,105</u>	<u>502,479</u>
Second Preferred Shares					
Purchase fund					
\$2.36 Series	36,000 shares	1,135,410	1,171,410	28,386	29,285
\$1.40 Series (convertible)	(5)	339,024	6,966,021	6,441	132,354
		<u>1,474,434</u>	<u>8,137,431</u>	<u>34,827</u>	<u>161,639</u>
		<u>17,695,482</u>	<u>20,662,213</u>	<u>\$621,932</u>	<u>\$664,118</u>
Changes during the year:					
Issued for cash		3,800,000	8,000,000	\$ 95,000	\$200,000
Cancelled through					
Purchase funds		(98,544)	(101,449)	(7,154)	(7,443)
Sinking funds		(32,304)	(32,441)	(3,230)	(3,244)
Other purchases		(8,886)	(7,233)	(889)	(723)
Converted into common shares		(6,626,997)	(44,608)	(125,913)	(848)
		<u>(2,966,731)</u>	<u>7,814,269</u>	<u>\$ (42,186)</u>	<u>\$187,742</u>

(1) Retractable on September 30, 1986.

(2) Retractable on June 30, 1987; annual purchase fund of 100,000 shares to June 30, 1987 and 3% of the July 1, 1987 balance thereafter.

(3) Retractable on September 30, 1988; annual purchase fund of 60,000 shares to September 30, 1988 and 3% of the October 1, 1988 balance thereafter.

(4) Retractable on July 19, 1995; annual purchase fund of 110,000 shares from July 20, 1984 to July 19, 1995 and 3% of the July 20, 1995 balance thereafter.

(5) Convertible into Class A Common Shares on a share-for-share basis at any time prior to October 1, 1985; annual purchase fund of 219,583 commences in 1986.

3. Capitalization (continued)

(v) Long term debt

	December 31	
	1983	1982
First mortgage bonds	\$ 328,669	\$340,320
Notes payable — secured	24,811	41,025
Secured debentures	559,306	461,206
Notes payable — other	31,500	30,000
Capitalized lease obligations	34,377	35,364
Unsecured subsidiary loans	42,942	—
Other	36,583	29,346
	<u>1,058,188</u>	<u>937,261</u>
Less current portion	30,129	27,976
	<u>\$1,028,059</u>	<u>\$909,285</u>
First mortgage bonds		
5¾% Series due 1983	\$ —	\$ 6,320
5⅝% Series due 1984	7,000	7,000
6% Series due 1985	7,560	8,560
14½% Series due 1987	60,000	60,000
7½% Series due 1988	10,000	12,000
15¾% Series due 1988	75,000	75,000
7⅞% Series due 1989	5,000	5,000
17% Series due 1989	50,000	50,000
8½% Series due 1993	25,000	25,000
9⅛% Series due 1994	30,000	30,000
8½% Series due 2002 (U.S. \$47,500; 1982 — U.S. \$50,000)	59,109	61,440
	<u>\$ 328,669</u>	<u>\$340,320</u>
Notes payable — secured		
6% and 7% Series due 1985 to 1987 (£9,094; 1982 — £12,874)	\$ 16,409	\$ 25,730
6%, 7%, 7⅞% and 8½% Series due 1984 and 1985 (U.S. \$6,752; 1982 — U.S. \$12,477)	8,402	15,295
	<u>\$ 24,811</u>	<u>\$ 41,025</u>
Secured debentures		
Series A — 11¼% to 13¾%		
Due 1984	\$ 436	\$ 436
Due 1985	10,820	10,820
Due 1988	28,000	28,000
	<u>39,256</u>	<u>39,256</u>
Series B — 9⅜% due 1990	17,400	17,800
Series C — 8% due 1992	22,250	22,750
Series E — 10½% due 2000	57,000	57,600
Series F — 10¾% due 2001	38,400	38,800
Series G — 13¾% due 1985	20,000	20,000
Series H — 15¼% due 1987	80,000	80,000
Series I — 17⅞% due 1997	60,000	60,000
Series J — 13% due 1997	125,000	125,000
Series K — 12% due 1993	100,000	—
	<u>\$ 559,306</u>	<u>\$461,206</u>
Notes payable — other		
Due 1984	\$ —	\$ 3,620
Due 1985	5,530	5,530
Due 1986	5,485	5,485
Due 1987	8,425	8,425
Due 1988	6,940	6,940
Due 1989	5,120	—
	<u>\$ 31,500</u>	<u>\$ 30,000</u>

3. Capitalization (continued)

The first mortgage bonds are secured by a first charge on certain of the Corporation's lands, buildings, plant and equipment and by a first floating charge on all other assets situated in the Province of Alberta. The Trust Deed provides for a sinking fund for the retirement of first mortgage bonds, payable on September 1 of each year of 1% of the original principal amount of first mortgage bond issues outstanding.

The notes payable-secured have no authorized limit and first mortgage bonds are pledged as collateral security.

The secured debentures are secured by a floating charge on the property and assets of the Corporation subject to the first specific charge and the first floating charge securing the first mortgage bonds. The Trust Indenture provides for sinking funds for all Series except A, G, H and K.

The notes payable-other, which are unsecured and have no authorized limit, bear interest determined at June 30 and December 31 of each year at the greater of the five year bank term deposit rate or the prevailing prime bank interest rate (11% at December 31, 1983) and mature December 31 in each year. These amounts are payable to rural electrification co-operative associations through their agent Farm Electric Services Ltd. and represent a portion of funds contributed by members of these associations which have been invested with the approval of the Alberta Director of Co-operative Activities.

The Corporation leases, with options to purchase, draglines costing \$37,627,000. The cost of this equipment is included in the property account under thermal production and the related liability is included in long term debt to reflect the effective acquisition and financing of the equipment. Accumulated amortization amounted to \$6,422,000 at December 31, 1983 (\$4,958,000 at December 31, 1982). The future minimum payments under the capitalized leases are \$3,753,000 per year for the next five years and \$49,016,000 in later years. The imputed interest included in these future minimum rentals is \$33,404,000 at December 31, 1983 (\$36,170,000 at December 31, 1982) at the interest rates of 6.4% and 9.4% implicit in the leases.

The unsecured subsidiary loans bear interest at current lending rates (9.4% to 11% at December 31, 1983) and are covered by a credit facility which is convertible into term debt upon thirty days notice by either party. As term debt, repayment is required in five equal annual installments commencing one year after conversion.

The annual requirements for capitalized lease obligations, sinking funds and maturing issues of long term debt for the five years subsequent to December 31, 1983 are as follows:

<u>Year</u>	<u>Capitalized lease obligations</u>	<u>Sinking funds</u>	<u>Maturing issues</u>
First	\$1,038	\$ 4,900	\$ 24,191
Second	1,113	13,253	55,808
Third	1,193	15,480	13,748
Fourth	1,279	15,120	155,745
Fifth	1,371	14,950	124,011

Sinking fund requirements have been reduced by bonds and debentures purchased and cancelled to meet annual requirements. The requirements shown for maturing issues will be reduced to the extent of purchases of these issues before their maturity for sinking fund purposes.

4. Rates for Service

In 1983 the Public Utilities Board (Alberta) approved as final rates, rates which were in effect in 1981 and 1982. The Board also determined a 1983 revenue requirement which included a 15% return on common equity invested in rate base. The Corporation billed customers on the basis of interim rates designed to recover this revenue requirement. Hearings to determine final 1983 rates are scheduled to resume February 20, 1984. Interim 1984 rates have been approved based on an application which includes a 15½% return on common equity invested in rate base. Hearings to determine the 1984 revenue requirement are scheduled to begin in May 1984. In the event that interim rates are not confirmed by the Board, the Corporation may be required to refund or adjust any bill based on them.

Pursuant to the Electric Energy Marketing Act (Alberta), the Alberta Electric Energy Marketing Agency "purchases" electric energy generated by the Corporation, Alberta Power Limited and Edmonton Power. The price is fixed by the Public Utilities Board. The Agency immediately "resells" the electric energy to the utility from which it was "purchased" at the average price of all electric energy "purchased". The price fixed by the Board for electric energy for the Corporation is below the average price established by the Agency which gives rise to a net charge (known as the transfer payment) from the Agency to the Corporation.

4. Rates for Service (continued)

For the first twelve months of the Agency's operation the Province of Alberta fully shielded the Corporation's customers from transfer payment charges. The shielding was reduced by 20% effective September 1, 1983 which gave rise to a transfer payment to the Agency of about \$1 million a month for the balance of 1983. The Board approved an interim levy of 2.5% on each customer's bill reflecting the transfer payment.

The Corporation has applied to the Board for and received interim approval to apply the 2.5% interim levy to its 1984 interim rates. The Corporation has also applied to the Board for and received interim approval for an increase in its price to the Agency. The two other utilities have not as yet made application for any change in their prices to the Agency. Hearings to fix the Corporation's 1984 price to the Agency are scheduled to begin in May 1984.

Beginning in 1983 the Corporation returned to the "normalized - all taxes paid" basis of accounting for federal taxes on income from the "one half normalized - all taxes paid" basis used in 1981 and 1982. This accounting change had no effect on earnings applicable to common shares or cash provided from operations since the change increased both the Corporation's revenue and federal taxes on income.

For 1981 and 1982 the Corporation reduced its federal income tax provision and payments by one half by claiming deductions greater than the amounts charged in the accounts. This federal tax reduction of \$58,795,000 is not recorded in the accounts since there is reasonable expectation that when such taxes are payable they will be recoverable in customer rates at that time. During 1980 and prior to 1973, deferred income taxes were included in customer electric energy rates. The Board, however, ordered that the income taxes deferred in 1980 be subsequently paid (\$3,784,000 in 1981, \$40,298,000 in 1982 and \$12,273,000 in 1983) and thus these amounts can be included in the income tax rebate program.

5. Income Tax Rate

Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal and Alberta provincial income tax rates to earnings. The following is a reconciliation of the combined statutory rates to the effective income tax rate:

	1983	1982
Statutory income tax rates	47.9%	48.8%
Adjustments —		
(i) The "one half normalized" provision for federal income taxes	—	(13.3)
(ii) Equity income from investments	(3.4)	(4.7)
(iii) Equity funds used during construction net of applicable depreciation adjustment	(7.2)	(9.3)
(iv) Coal mining incentives	(1.4)	(1.3)
(v) Other	0.4	1.8
Effective income tax rate	<u>36.3%</u>	<u>22.0%</u>

6. Pension Plan

The Corporation has a retirement pension fund covering substantially all employees. Based on actuarial advice an unfunded past service obligation of approximately \$2,000,000 at December 31, 1982 is being funded and charged to operations in annual amounts of approximately \$300,000.

7. Related Party Transactions

In the normal course of its business the Corporation enters into numerous transactions with Canadian Utilities Limited and its subsidiaries at prices and terms which are substantially subject to regulation by the Public Utilities Board (Alberta). The amounts involved in these transactions are not material.

The Corporation entered into agreements with Alberta Power Limited (a subsidiary of Canadian Utilities Limited) for the construction, joint ownership and operation of units 1 and 2 of the generating plant being built near Sheerness, Alberta. These units will have an estimated net generating capacity of 732,000 kilowatts. The Corporation's 50% share of the cost is approximately \$500 million of which approximately \$210 million has been incurred to December 31, 1983 (\$106 million to December 31, 1982).

8. Comparative Figures

Certain 1982 comparative figures have been reclassified to conform with the statement presentation adopted in 1983.

Supplementary Information on the Effects of Changing Prices

(unaudited)

Introduction

The effects of changing prices are not disclosed in conventional historical cost financial statements. The Canadian Institute of Chartered Accountants has recently adopted recommendations for disclosure of supplementary information to report the effects of changing prices on an enterprise.

The presentation and usefulness of information on the effects of changing prices is necessarily in the experimental stage. Experimentation with the disclosure is desirable since to date no consensus has emerged on the concepts or on the interpretation of the results. Although inflation rates have lessened recently, significant accumulated inflation distortions related to the Corporation's large investment in operating utility property remain in the historical cost financial statements. The supplementary information is designed to remove this distortion.

In management's opinion this supplementary information reflects the principal effects of inflation on the Corporation. It provides useful insights into the real return on the common share investment and the real common share earnings. The values indicated by themselves, however, are not necessarily suitable for purposes of valuing the Corporation or its assets but do provide useful perspectives on the impact of inflation on recorded amounts.

Basic Measurement Concepts

The basic concept under current cost accounting is that earnings are measured after full provision is made by depreciation charges for the current cost of property that has been consumed in providing service. Conversely, historical cost earnings are an inadequate measure since historical cost depreciation does not reflect the value of property that has been consumed in providing service.

The restated earnings under current cost accounting show the earnings after providing for the property value consumed or current cost adjustment to depreciation. This adjustment is partially offset by the reduction in real value, under conditions of inflation, of the principal of debt and preferred share securities used in the financing of property. This offset (known as the financing adjustment) reduces the current cost depreciation charge so that only current cost depreciation related to the Corporation's property financed by common shareholders is deducted in arriving at net earnings applicable to common shares on a current cost basis. These net earnings reflect a measurement of the real return on the shareholders' invested capital.

Measurement Techniques

The current cost of property is measured using specific indexes while coal reserves are valued at their net incremental cost of replacement. The resulting current cost adjustment to property determines the current cost adjustment to common shareholders' equity. Common shareholders' equity on a current cost basis is approximately the same for the Corporation whether it is measured with reference to the specific price level changes of the Corporation's property that was used or with reference to the general purchasing power changes of the common shareholders' investment.

Depreciation is calculated on a straight line basis on these current costs. The resulting property on a current cost basis is believed to be conservatively stated in relation to the value of the property estimated in terms of replacement cost less loss in value. The Corporation's experience indicates that the application of straight line depreciation rates to current costs tends to overstate the required current cost depreciation.

Regulation

The Corporation is subject to a regulatory process which periodically establishes a fair return on investors' capital. To the extent that the regulatory process treats the Corporation's shareholders fairly, the Corporation is able to attract the capital necessary to meet its service obligations to customers. The Corporation does not expect that the regulatory authorities will allow the maintenance of its operating capability to become competitively impaired and considers that the disclosure of the current cost of its property is appropriate.

Supplementary Information on the Effects of Changing Prices (continued)
(dollar amounts in thousands except per share data)

	As at and for the year ended December 31	
	1983	1982
Earnings applicable to common shares:		
Earnings on historical cost basis	\$ 148,820	\$ 134,802
Current cost depreciation adjustment	(86,523)	(78,711)
Financing adjustment	57,803	53,293
Earnings on current cost basis	<u>\$ 120,100</u>	<u>\$ 109,384</u>
Property account:		
Land, buildings, plant and equipment		
Historical cost basis	\$3,428,130	\$2,938,627
Current cost adjustment	<u>2,951,678</u>	<u>2,686,397</u>
	<u>6,379,808</u>	<u>5,625,024</u>
Less accumulated depreciation		
Historical cost basis	545,049	455,597
Current cost adjustment	<u>811,058</u>	<u>841,763</u>
	<u>1,356,107</u>	<u>1,297,360</u>
Property on current cost basis	<u>\$5,023,701</u>	<u>\$4,327,664</u>
Common shareholders' equity:		
Historical cost basis	\$1,088,326	\$ 804,378
Current cost adjustment	<u>710,555</u>	<u>595,691</u>
Common shareholders' equity on current cost basis	<u>1,798,881</u>	<u>1,400,069</u>
Unrealized financing adjustment	<u>1,430,065</u>	<u>1,248,943</u>
Common shareholders' equity on current cost basis including unrealized financing adjustment	<u>\$3,228,946</u>	<u>\$2,649,012</u>
Average return on common shareholders' equity:		
Historical cost basis	15.7%	16.9%
Current cost basis	7.5%	8.1%
Earnings per share:		
Historical cost basis	\$ 2.74	\$ 2.61
Current cost basis	\$ 2.21	\$ 2.12
Common shareholders' equity per share:		
Historical cost basis	\$17.27	\$15.50
Current cost basis	\$28.54	\$26.97
Current cost basis including unrealized financing adjustment	\$51.24	\$51.03

Current cost accounting notes:

- (i) The accounting policies followed in this supplementary information are unchanged from the consolidated historical cost financial statements except for the change in the basic measurement concept of earnings.
- (ii) The Corporation's investment activity has not been stated on a current cost basis due to the nature of the investments.
- (iii) No adjustment is made to the income tax provision since current cost depreciation adjustments and financing adjustments are not recognized by the taxing authorities.
- (iv) The 1982 comparative figures are stated in 1982 purchasing power dollars. All 1982 current cost earnings disclosures are before extraordinary items.

TransAlta Utilities Corporation

Consolidated 10 Year Summary

	1983	1982	1981
Financial Record (in thousands of dollars except where otherwise noted)			
Statement of Earnings:			
Electric revenue	629,429	490,518	400,503
Water utilities revenue	2,295	2,038	2,211
Operating deductions	(398,023)	(302,134)	(238,836)
Allowance for funds used during construction	97,376	85,158	35,388
Equity income from investments	21,616	23,213	22,428
Interest charges	(137,374)	(110,499)	(78,356)
Preferred share dividend requirements	(66,499)	(53,492)	(37,113)
Earnings applicable to common shares before extraordinary items	148,820	134,802	106,225
Extraordinary items	—	(33,400)	—
Net earnings applicable to common shares	148,820	101,402	106,225
Average common shareholders' investment (weighted)	885,000	780,000	677,000
Return (before extraordinary items) on weighted average common shareholders' investment (%)	16.8	17.3	15.7
Per common share (dollars per share)			
Book value (year end)	17.27	15.50	14.93
Earnings before extraordinary items	2.74	2.61	2.22
Dividends declared	1.38	1.20	1.04
Interest coverage (times earned before income tax)			
First mortgage bonds	11.44	8.41	11.98
All fixed charges	3.46	3.18	3.35
Total assets (year end)	3,295,713	2,820,652	2,369,958
Electric utility property in service (year end)	2,212,120	1,601,761	1,456,700
Expenditures on property	491,949	691,990	406,552
Rate base			
Electric utility rate base	1,949,092	1,558,192	1,454,786
Allowed return on common equity invested in utility rate base (%)	15.0	17.0	15.5
Recorded cost of capital (%)	12.1	12.3	11.1
Capitalization (year end)			
Common shareholders' equity	1,088,326	804,378	787,487
Preferred shares	621,932	664,118	476,376
Long term debt	1,028,059	909,285	582,722
Minority interest	70,000	—	2,000
	2,808,317	2,377,781	1,848,585
Statistical Record			
Electric energy sales (millions of kWh)			
Residential, general service and small industry	2,539	2,557	2,332
Industrial	5,963	5,197	4,901
Cities and towns under wholesale contracts	6,448	6,338	5,818
Farms	904	906	803
	15,854	14,998	13,854
Generating capability (nominal net MW)			
Hydro	800	800	800
Thermal	2,933	2,556	2,556
	3,733	3,356	3,356
Sources of primary energy (millions of kWh)			
Hydro	1,473	1,584	2,027
Thermal — Gas	6	19	3
— Coal	18,062	16,379	14,276
Net purchases and exchanges	(2,398)	(1,785)	(1,332)
	17,143	16,197	14,974
Customers			
Served directly	275,226	267,001	264,497
Served indirectly through wholesale contracts	292,774	279,722	274,255

1980	1979	1978	1977	1976	1975	1974
356,039	309,043	263,578	209,999	164,965	127,494	101,402
3,376	2,899	2,424	1,650	1,289	1,112	1,047
(226,962)	(199,531)	(169,461)	(134,510)	(107,540)	(84,044)	(69,691)
20,869	17,504	17,138	15,928	15,161	11,692	4,142
8,872	1,908	1,543	1,343	824	—	—
(60,882)	(44,089)	(41,212)	(37,415)	(32,153)	(26,793)	(19,572)
(27,120)	(22,984)	(19,077)	(15,952)	(11,004)	(7,520)	(3,829)
<u>74,192</u>	<u>64,750</u>	<u>54,933</u>	<u>41,043</u>	<u>31,542</u>	<u>21,941</u>	<u>13,499</u>
—	—	—	—	—	—	1,628
<u>74,192</u>	<u>64,750</u>	<u>54,933</u>	<u>41,043</u>	<u>31,542</u>	<u>21,941</u>	<u>15,127</u>
<u>534,000</u>	<u>426,000</u>	<u>359,000</u>	<u>267,000</u>	<u>211,000</u>	<u>145,000</u>	<u>120,000</u>
13.9	15.2	15.3	15.4	14.9	15.1	11.2
13.40	11.88	10.91	9.77	8.96	7.98	7.27
1.76	1.73	1.58	1.43	1.26	1.13	0.79
0.94	0.83	0.77	0.68	0.63	0.53	0.42
13.68	11.33	9.90	10.34	8.00	6.40	4.87
3.77	4.38	4.11	3.52	2.99	2.66	2.63
1,939,460	1,470,486	1,325,847	1,172,309	959,278	759,615	601,564
1,379,342	1,131,301	1,068,054	848,872	723,112	516,260	468,945
270,745	209,051	185,259	198,574	207,520	160,519	120,209
1,207,939	1,061,225	886,569	722,938	562,837	439,149	403,579
14.5	14.5	14.5	14.5	15.0	15.0	12.5
10.9	10.6	9.9	9.6	9.4	9.0	7.9
606,027	450,505	403,505	311,802	252,147	178,427	133,785
442,341	295,195	250,601	214,154	159,038	106,087	87,557
489,653	484,779	474,906	458,300	386,619	322,971	255,197
—	—	—	—	—	—	—
<u>1,538,021</u>	<u>1,230,479</u>	<u>1,129,012</u>	<u>984,256</u>	<u>797,804</u>	<u>607,485</u>	<u>476,539</u>
2,148	1,952	1,767	1,540	1,397	1,256	1,112
4,539	4,165	3,637	3,320	3,076	2,929	3,030
5,359	4,915	4,502	4,156	3,852	3,640	3,270
774	762	699	640	606	573	540
<u>12,820</u>	<u>11,794</u>	<u>10,605</u>	<u>9,656</u>	<u>8,931</u>	<u>8,398</u>	<u>7,952</u>
800	800	800	800	800	800	800
2,556	2,197	2,197	1,845	1,493	1,141	1,141
3,356	2,997	2,997	2,645	2,293	1,941	1,941
1,692	1,408	1,824	1,518	1,731	1,415	1,715
—	17	5	9	239	337	309
13,729	12,627	10,240	9,833	7,547	6,953	6,737
(1,435)	(1,204)	(502)	(701)	294	487	(130)
<u>13,986</u>	<u>12,848</u>	<u>11,567</u>	<u>10,659</u>	<u>9,811</u>	<u>9,192</u>	<u>8,631</u>
253,333	241,615	227,947	212,709	198,558	184,740	171,977
271,134	257,365	226,289	215,589	202,684	190,978	182,601

A Financial Statistical Summary providing additional financial information on the Corporation over a ten year period is available on request. Please direct inquiries to the Treasurer of the Corporation.

Corporate Information

TransAlta Utilities Directors

R. G. BLACK, Q.C.
Partner, Black & Company
Calgary, Alberta

T. S. DOBSON*†
Chairman
Easton United Securities Ltd.
Calgary, Alberta

D. D. DUNCAN, Q.C.
Partner, Duncan & Craig
Winterburn, Alberta

J. T. FERGUSON*
President
Princeton Developments Ltd.
Edmonton, Alberta

D. J. GORDON
Corporation Director
Willowdale, Ontario

A. W. HOWARD*
Chairman of the Board
Calgary, Alberta

J. W. MADILL†
Chief Executive Officer
Alberta Wheat Pool
Calgary, Alberta

G. J. MAIER
President and Chief Executive Officer
Bow Valley Industries Ltd.
Calgary, Alberta

W. J. McCARTHY
Senior Vice-President
Sun Life Assurance Company
of Canada
Toronto, Ontario

H. J. S. PEARSON†
Chairman of the Board and
Chief Executive Officer
Century Sales & Service Limited
Edmonton, Alberta

R. F. PHILLIPS, F.C.A.*
Corporation Director and
Corporate Consultant
Calgary, Alberta

R. A. THRALL, JR.
President
McIntyre Ranching Co. Ltd.
Lethbridge, Alberta

M. M. WILLIAMS
President and Chief Executive Officer
Calgary, Alberta

* Member of Audit Committee

† Member of Compensation Committee

TransAlta Utilities Officers

A. W. HOWARD
Chairman of the Board

M. M. WILLIAMS
President and Chief Executive Officer

W. L. FRASER
Senior Vice-President,
Resource Planning

K. F. McCREADY
Senior Vice-President,
Operations

H. G. SCHAEFER
Senior Vice-President,
Financial and Corporate Planning

E. J. BARRY
Vice-President,
Planning

J. A. CLOW
Vice-President,
Administration

M. J. HALPEN
Vice-President,
Human Resources

F. A. R. McKINNON
Vice-President,
Finance

W. NIEBOER
Vice-President,
Engineering

W. SAPONJA
Vice-President,
Power System Operation

E. W. SMITH
Vice-President,
Customer Service Operations

R. G. BLACK, Q.C.
General Counsel

R. L. McCRIMMON
Corporate Secretary

W. A. VERES
Treasurer

Head Office

110 - 12 Avenue S.W.
Calgary, Alberta

Postal Address:
Box 1900, Calgary, Alberta, T2P 2M1

Incorporation

TransAlta Utilities Corporation, incorporated under the laws of Canada, was continued by Articles of Continuance under the Canada Business Corporations Act on May 3, 1979.

TransAlta Resources Directors

R. G. BLACK, Q.C.*

A. W. HOWARD*

W. J. McCARTHY

R. F. PHILLIPS, F.C.A.*

H. G. SCHAEFER

M. M. WILLIAMS

TransAlta Resources Officers

M. M. WILLIAMS
Chairman of the Board

H. G. SCHAEFER
President

F. A. R. McKINNON
Vice-President

R. L. McCRIMMON
Secretary

W. A. VERES
Treasurer

Southern Alberta Advisory Board

T. A. BLAND
President
Terry Bland Photography
Lethbridge, Alberta

G. H. BODMER
Project Co-ordinator
Regional Resources Project No. 1
Carbon, Alberta

W. S. DALEY
Rancher
Granum, Alberta

MISS W. H. HUNLEY
Businesswoman
Former MLA and Cabinet Minister
Rocky Mountain House, Alberta

L. P. MAXIE
Consultant
L. Peter Maxie and Associates
Calgary, Alberta

G. W. MITCHELL
Rancher
Pincher Creek, Alberta

P. SHIMBASHI
President, Diamond S. Produce Ltd.
and Newell Vegetable Ltd.
Taber, Alberta

MRS. G. M. TAYLOR
Editor
Rocky View/Five Village Weekly
Irricana, Alberta

Auditors

CLARKSON GORDON
Chartered Accountants, Calgary

Northern Alberta Advisory Board

E. W. BERESFORD
Manager, Planning & Regulatory
Affairs
Obed Mountain Coal Company Ltd.
Hinton, Alberta

A. C. COLEMAN
Mayor
Wainwright, Alberta

G. C. DOCKEN
Consultant
President, Strathcona Industrial Group
Edmonton, Alberta

R. A. JESPERSEN
Dairy Farmer
Stony Plain, Alberta

M. R. LEBLANC
Operations Manager
Fleming Cats Ltd.
Lac La Biche, Alberta

R. H. M. PLAIN
Associate Professor of Economics
University of Alberta
St. Albert, Alberta

W. H. VAN DE WALLE
Farmer
Legal, Alberta

G. G. WETSCH
Lawyer, Peterson Ross
Barristers and Solicitors
Spruce Grove, Alberta

Transfer Agents and Registrars

For First Preferred Shares:
CENTRAL TRUST COMPANY
Vancouver, Calgary, Edmonton
Winnipeg, Toronto, Montreal
Montreal Trust Company, Regina as
Agent of Central Trust Company

For Second Preferred and Common Shares:
MONTREAL TRUST COMPANY
Vancouver, Calgary, Edmonton,
Regina, Winnipeg, Toronto, Montreal

Trustees and Registrars

For First Mortgage Bonds:
MONTREAL TRUST COMPANY
Vancouver, Calgary, Toronto,
Montreal

For Debenture Issues:
THE ROYAL TRUST COMPANY
Vancouver, Calgary, Toronto,
Montreal

For Dividend Reinvestment and Share Purchase Plan; and Stock Dividend Accumulation Plan:
MONTREAL TRUST COMPANY
Calgary

TransAlta Utilities Service Area

