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David Cornhill
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Debbie Stein
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David Harris
President, Power

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Linda Ezergailis
TD Securities

Robert Catellier
Clarus Securities

Robert Kwan
RBC Capital Markets

Carl Kirst
BMO Capital Markets

Matthew Akman
Scotia Capital

PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the AltaGas Ltd. 2011 Second Quarter Conference Call and Webcast. I would now like to turn the meeting over to Julie Puddell, Team Leader, Investor Relations. Please go ahead, Ms. Puddell.

Julie Puddell, Team Leader, Investor Relations

Thank you. Good morning everyone. Welcome to AltaGas' second quarter 2011 conference call. Speaking today are David Cornhill, Chairman and Chief Executive Officer; Debbie Stein, Senior Vice-President Finance and Chief Financial Officer; David Harris, President, Power; and Randy Toone, Co-President, Gas. After some formal comments this morning we will have a question and answer session.

Before we begin I'd like to remind you that certain information presented today may include forward-looking statements. Such statements reflect the Corporation's current expectations, estimates, projections, and assumptions. These forward-looking statements are not guarantees of future performance and they are subject to certain risks which could cause actual performance and financial results to vary materially from those contemplated in the forward-looking statements. For additional information on these risks, please take a look at our annual information form under the heading "Risk Factors".

I'll now turn the call over to Mr. David Cornhill.

David Cornhill, Chairman & Chief Executive Officer

Thank you, Julie. Good morning everyone.

I am pleased to report that our operating businesses performed well in the quarter. It was a difficult quarter operationally as we experienced floods in southern part of Alberta and forest fires in the northern part of Alberta. It impacted the operations of the company in Q2; access to facilities was hampered and construction slowed. Our team did a great job to meet the challenges and provide service to our customers.

In spite of the challenging quarter we report strong earnings. Adjusted net income before tax in the quarter was $24.3 million adjusted for all mark-to-market accounting, slightly higher than $23.3 million in the second quarter of last year, which is a 4 percent increase. On a year-to-date basis the results were stronger with net income before tax of $72.6 million compared to $50.3 million or 44 percent increase.

We continue to expect 2011 earnings from our assets to be higher than last year, as we anticipate strong volumes in our processing and extraction plants. We were seeing growth volumes at Harmattan and Younger on the extraction side. On the FG&P side volumes in the growth areas are beginning to outstrip declines and we saw a slight uptick in utilization in our field gathering and processing plants in the quarter. We're seeing increased base load gas-fired generation and stronger power prices in Alberta and increased hedge position. Rate base growth continues in our two largest utilities.

On the project front, our project teams have been very busy. A number of the projects are in construction. Long lead items are being secured to ensure budgets and schedules are in line with expectations. We made significant progress in the quarter when we received the final regulatory approval required for the construction of the Gordondale plant. In power we completed negotiations on draft impact benefit agreements on McLymont and Volcano. Management visited the Forrest Kerr site on July 12th and I'm happy to report things are going well. Randy and David will provide more detail on their projects.

Before I pass the call over to Debbie I'd like to provide some insight around our dividend. We continue to expect earnings and cash flow to be higher than 2011 compared to 2010. We will be prudent on how and when we increase our dividend. We will continue to monitor the performance of our assets, the progress of our projects under construction, and ensure that we provide a balanced approach of dividend growth and growth of value. We expect modest dividend growth until Forrest Kerr comes in service in 2014 and then more aggressive dividend growth. We believe 2011 will be a great year for AltaGas and will deliver record funds from operations.

I will now pass the call on to Debbie to discuss the operating results and financial overview.

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

Thank you, David, and good morning everyone.

Net income applicable to common shares for the second quarter 2011 was $16.6 million or $0.20 per share compared to $28.4 million or $0.35 per share for the same period in 2010.

In the quarter AltaGas reported an income tax recovery of $3.8 million, which included the impact of decreasing the future tax liability by $6.8 million compared to a recovery of $2.1 million in second quarter last year when we recorded taxes as a trust. In second quarter 2011 AltaGas reported a pre-tax unrealized loss on risk management contracts of $4.6 million compared to pre-tax gain of $3.8 million in the same quarter 2010. In the quarter we also reported a pre-tax unrealized loss related to an equity investment of $3.8 million compared to a pre-tax unrealized loss of $0.8 million in the second quarter last year. Normalizing for the impact of all mark-to-market accounting, as David said, net income before tax in second quarter 2011 was $24.3 million compared to $23.3 million in the same quarter last year.

Operating income, as we have defined in the MD&A under our non-GAAP measures, from all reporting segments was $34.3 million in the quarter compared to $35.6 million in the same quarter last year. Operating income includes the unrealized loss related to an equity investment previously discussed.

Interest expense in second quarter 2011 was $13.7 million compared to $13.1 million for the same period 2010. The increase in interest expense was due to a higher average borrowing rate partially offset by lower average debt balances. The average borrowing rate was 6.4 percent in second quarter compared to 5.2 percent in second quarter last year, partially offset by a lower average debt balance of $995.4 million compared to $1,039.5 million in second quarter 2010.

Future income taxes in the quarter were approximately $5 million, reduced by a $1 million recovery as a result of the mark-to-market losses on risk management contracts and the $6.8 million decrease in future tax liabilities. The decrease in future tax liabilities was the result of applying a lower rate to timing differences to better reflect the substantively enacted tax rate anticipated to be in effect when the difference is reversed. The effective tax rate on the consolidated statement of income is expected to be approximately 18 percent for 2011. Based on tax pools of approximately $1.3 billion AltaGas does not expect to be materially cash taxable until 2016.

In our Gas business, operating income was $25.2 million in second quarter 2011 or 29 percent higher compared to $19.6 million for the same period in 2010. The increase was mainly due to increased volume of natural gas liquids processed and higher frac spreads. The newly-acquired Marlboro facility in the Pine Creek area began contributing to operating income in mid-May and an expansion at the Alder Flats facility was completed at the end of April. During the quarter Younger commenced its scheduled turnaround that occurs every three years in conjunction with other operators in the area. The coordinated turn-around resulted in partial and full shutdowns during part of June and July. The impact of the turnaround on operating income will be recognized in the third quarter and is expected to be approximately $4 million. AltaGas realized frac spreads of $36.65 per barrel in second quarter this year compared to $27.51 per barrel in second quarter last year. Frac spreads remain at all-time highs with spot frac spreads averaging $41.27 per barrel in second quarter this year, up from approximately $31 per barrel in second quarter last year. In 2011 we anticipate that 13 percent of total extraction volumes will be exposed to frac spread and approximately 65 percent of that exposure is currently hedged at an average price of $26.85 per barrel. For 2012 AltaGas has hedged approximately 50 percent of its frac-exposed volumes at an average price of $35 per barrel.

Now turning to the Power business, operating income in the Power business for the second quarter of 2011 was $15.5 million compared to $20.8 million for the same period in 2010. The decrease was mainly due to lower spot prices for power, which was partially offset by higher hedged prices, the addition of the Harmattan co-gen facility in fourth quarter last year, and stronger results from the Bear Mountain Wind Park. In second quarter 2011 AltaGas was hedged approximately two-thirds at an average price of $67.47 per megawatt hour and realized an average power price of $64.26 per megawatt hour compared to $79.98 per megawatt hour in second quarter 2010. For the third and fourth quarter in 2011 AltaGas is approximately two-thirds hedged at an average price of $70 per megawatt hour and 50 percent hedged at an average price of $65 per megawatt hour respectively. For 2012 AltaGas is approximately one-third hedged at an average price of $62.50 per megawatt hour. Power forward prices are in the $80s per megawatt for the third quarter this year and $70 per megawatt for fourth quarter this year and in the $60 range per megawatt hour for 2012. We expect to continue to execute short-term hedges throughout 2011 at premium prices to long-term averages, as we have successfully done to date this year.

In the Utility segment net income is more meaningful than operating income as a result of the flow through of income taxes to customers. Net income for second quarter 2011 was $2.4 million compared to $0.5 million in the same period in 2010. Net income increased due to timing differences related to the recovery of cash income taxes in the year and other applied for recoverable cost at AUI. Rate-base growth of 28 percent at Heritage gas and 13 percent at AUI also contributed to the increased net income for second quarter 2011 as compared to 2010.

Overall AltaGas expects to report stronger results from all its operating businesses in 2011 compared to 2010. Higher earnings are expected from higher volumes processed at certain of our gas processing assets and extraction facilities as producers look to increase netbacks from liquids-rich gas and higher realized frac spreads. Power is expected to be higher as a result of higher prices and higher volumes generated while the Alberta and Nova Scotia utilities are expected to see stronger earnings from rate base growth. Income tax expense is expected to be higher in 2011 compared to 2010 as a result of being a corporation for a full year. On a cash flow basis our reported funds from operations were higher with $46.7 million or $0.56 per share in second quarter 2011 compared to $44.3 million or $0.54 per share in the same quarter last year. Adjusting for maintenance capital and preferred share dividends, funds from operations was $0.52 per share, the same as second quarter last year. EBITDA adjusted for all mark-to-market was higher at $60.4 million in second quarter this year compared to $59.7 million in second quarter last year.

In 2011 AltaGas' capital program is approximately $525 million, of which $515 million is committed. The majority of the committed capital includes planned spending for Harmattan co-stream, Gordondale, and Forrest Kerr, as well as the growth in rate base at the utilities in Alberta and Nova Scotia. We are well positioned to fund our current capital program through internally-generated cash flow, our dividend reinvestment plan, and continued strong access to the capital markets. At the end of the quarter we had approximately $890 million available on our credit facilities. We continue to maintain our balance sheet strength with our debt-to-total-capitalization of 44.8 percent at the end of the quarter. On April 26, 2011 AltaGas executed a new $125 million unsecured bilateral letter of credit facility and in May extended the term of the $600 million and $75 million credit facilities to four years, which will now mature on May 30, 2015.

On the issue of accounting standards, you will note that we have decided to adopt U.S. GAAP beginning January 2012. Given the uncertainty with respect to the application of IFRS to rate regulated activities we are likely to use the deferral period offered to qualified entities. We assessed the accounting policy choices available and determined that the most appropriate decision given our business activities is the use of U.S. GAAP effective January 1, 2012. On July 4, 2011 AltaGas was granted exemptive relief by the Alberta Securities Commission to prepare its financial statements in accordance with U.S. GAAP without being registered with the SEC.

With that I will now turn the call over to Randy to talk about our major gas projects.

Randy Toone, Co-President, Gas

Thank you, Debbie.

Projects within the gas segment are progressing well. On June 20th AltaGas received final regulatory approval to construct the 120 million cubic feet a day deep cut Gordondale processing facility. Construction on the related Henderson pipeline commenced May 24, 2011. Despite wet weather challenges, pressure testing of the pipeline and tie-in work is essentially complete with clean-up underway. By using existing infrastructure and building the Henderson pipeline to connect to the Pouce Coupe facility AltaGas expects to provide processing services for early Gordondale production of 15 million cubic feet a day by late third quarter 2011.

At the Gordondale facility site, access road upgrading and site clearing is underway. During the first half of 2011 $54 million of orders were placed for long lead equipment and materials related to the Gordondale project. AltaGas expects $100 million of that $235 million cost to be fixed by the end of September 2011. In total approximately two-thirds of the costs are expected to be contractually fixed over the course of construction. The facility and the associated gas gathering system are on schedule to be in service by late 2012.

The Harmattan co-stream project is on track to commence operations in late first quarter 2012. Major equipment tie-in is planned to occur for the scheduled plant turnaround in September of 2011. Construction of the 23-kilometre 4-inch diameter NGL pipeline and the 80-kilometre 24-inch diameter gas pipeline is expected to commence later this summer. To date approximately $54 million of the $130 million cost are fixed. By the end of 2011 85 percent of the costs will have been fixed. This project is underpinned by a 20-year commercial arrangement with Nova Chemicals.

I would like to pass the call over to David Harris to talk about Forrest Kerr.

David Harris, President, Power

Thank you, Randy, and good morning everyone.

Forrest Kerr continued to make steady progress through the second quarter. We completed surface excavation and clearing efforts at the intake area and will be starting blasting on the power tunnel construction portal access within the next few weeks. Civil and bulk excavation activities on the intake structure will start at the beginning of August. Tunnelling of the main access tunnel is at 212 metres and the construction access tunnel is at 330 metres. To date we have still not encountered any rock formations that cause us concern. We are projecting to be complete with the construction access tunnel by the end of September and the main access tunnel by early December of this year, slightly ahead of schedule. The remaining underground excavation, which includes the power house, power tunnel, and tailrace has been awarded to Procon under a fixed unit price contract worth approximately $140 million. Costs remain within the project budget and estimates of the scopes of work. With the Procon contract finalized we are on a solid path to have approximately 88 percent of the project costs fixed by the end of 2011. Project cost escalation and schedule risk will continue to be mitigated through our procurement and contracting strategies.

That concludes my prepared remarks. I'll now turn the call back to Julie.

Julie Puddell, Team Leader, Investor Relations

Thank you, David.

We are now available to answer your questions. Donna, I will now turn the call back to you for the Q&A session.

QUESTION AND ANSWER SESSION

Operator

Thank you. If you have a question and you are using a speakerphone, please lift the handset before making your selection. To register, please press star one on your telephone keypad. To cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Linda Ezergailis from TD Securities. Please go ahead.

Linda Ezergailis, TD Securities

Thank you. Can you perhaps comment on which publicly traded company the $3.8 million mark-to-market loss was or at least what industry or what type of a company it was?

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

Linda, it's in our financial statement notes. It's actually Alterra.

Linda Ezergailis, TD Securities

Oh, Alterra. Okay. Sorry, I haven't got that far. Thank you. And, just as a follow-up, the leave to appeal decision on the Harmattan co-stream would be expected when?

And can you remind me what the grounds for the leave to appeal were?

Greg Aarssen, Co-President Gas

Linda, the applicants made application to the Alberta Court of Appeal for leave to bring an appeal forward on the decision of the board in Alberta on the Harmattan co-streaming application, the successful application, and the decision there. The court heard this and we were expecting the decision to come out by the end of June. It's been delayed and we're seeing now that the court is still catching up on decisions. We would expect it imminently but sometime likely later part of August/early September.

Linda Ezergailis, TD Securities

Okay. And just remind me what the grounds on leaving to appeal were?

Greg Aarssen, Co-President Gas

Oh, there were several. They basically were saying that there were errors made by the board in its decision.

Linda Ezergailis, TD Securities

Okay, that's helpful context.

Greg Aarssen, Co-President Gas

I should also add to that though that there was also an application for a review on variance and that the board did grant that review on variance and went through it and established that its decision was in fact its correct decision. Made no variance.

Linda Ezergailis, TD Securities

Yes, okay. Good point. Now just as another question on your operations, have AltaGas' extraction premiums increased versus a year ago at Empress specifically?

David Cornhill, Chairman & Chief Executive Officer

Yeah, we have seen increases at Empress but we do see Empress full for the gas year and substantially full next year as well. A large portion of our extraction at Empress is under a long-term gas supply, which is not affected by the current market.

Linda Ezergailis, TD Securities

Great, thank you.

Operator

Thank you. The next question is from Robert Catellier from Clarus Securities. Please go ahead.

Robert Catellier, Clarus Securities

Thank you. My first question is for David with respect to the perspective on the dividend policy. Just listening to some of your comments, which support our own view, extraction volumes look great, the field gathering and processing appears to have growth outstripping declines, power remains fine and the rate base is growing, all of this leading to funds from operations higher than, you know, basically at record levels. In addition you have some growth in hand, very important growth in hand, and you've recently extended your credit facilities. So I'm wondering what the board needs to see to revisit the dividend policy, understanding that of course you need to be prudent. But other than the MTN that comes due in January I really don't see anything on the horizon that would require additional prudence. Do you have a comment on that?

David Cornhill, Chairman & Chief Executive Officer

We have set out with the board certain hurdles that we think we should have by us before we look at a dividend increase and most of it is just maturing of time on the project side and confirmation of the power market position. Compared to the outlook in 2010 and 2011 has been quite strong, stronger, and we just want to make sure that we have eliminated almost all risk before we look at that. So I agree with your assessment. I guess maybe we're being somewhat conservative. But we have clearly set out with the board a checklist that we need to deliver to them on the dividend side with respect to looking at an increase.

Robert Catellier, Clarus Securities

So it's just a question of the threshold of prudence is pretty high.

David Cornhill, Chairman & Chief Executive Officer

Yeah, I would say so. And I think it's just some time, a maturing of time on some of these projects to make sure that everything is on time and on reasonable budget. So that's—I think getting through the summer will make a big difference for us.

Robert Catellier, Clarus Securities

Okay. Question for Debbie. I'm curious as to some of the choices related to the accounting policy. I understand why you'd want to go to U.S. GAAP but I'm curious about the exemption. So effectively my interpretation is that you'd basically be on U.S. GAAP for about three years and so I'm wondering about the cost of going to U.S. GAAP and then the likelihood that you'd then have to convert to IFRS. Or do you expect the exemption to be extended or a U.S. listing for the company, U.S. registration, thereby making the exemption permanent?

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

The wording that came with the exemption to all of the companies that are being granted exemptions are that the exemption from the Securities Commission would only be to 2015. We would like to think that if we don't see the U.S. going to IFRS and/or IFRS moving towards a more rate regulated accounting friendly perspective that we would apply for another exemption. Whether we would get it or not, I can't comment on that, but that's really the nuance there with respect to the exemptive relief language that was provided to us. In terms of listing on the U.S., that's always an option. We don't have any plans at this time.

Robert Catellier, Clarus Securities

Okay, that's helpful. Thanks. And I was wondering just quickly on the power side if you can characterize and quantify the increase in transmission and environmental costs during the quarter.

David Harris, President, Power

We sure can. It's basically driven by volume. Megawatt generation is up in Q2 of 2011 compared to last year of 2010 and it's primarily driven by Sundance with Sundance being offline last year due to a forced outage.

Robert Catellier, Clarus Securities

Okay. And then finally a question again for David. You know, gas prices are low and they seem to be trapped in a pretty low band with somewhat modest volatility and I wondered if this has changed the company's desire to pursue storage assets.

David Cornhill, Chairman & Chief Executive Officer

We've slowed the progress of construction on those assets at this point. We still think there's long-term value in gas storage but clearly we've slowed the capital spend and the timelines on those. We think they're great long-term assets; right now is not the best time to be going full out on those. But we still think storage is a good place to be.

Robert Catellier, Clarus Securities

Okay, thank you.

Operator

Thank you. The next question is from Robert Kwan from RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Thank you. Just kind of the first topic on the Montney, there's a lot going on there and you've certainly got some nice positioning in what you're doing so, David, how do you think about kind of sequencing projects and potential acquisitions there, balancing the growth opportunities which seem to have some pretty attractive returns versus funding your other projects and just overall capital efficiency?

David Cornhill, Chairman & Chief Executive Officer

That's a very large question. We're active in that area and looking to grow that area. Clearly the timing, we would prefer it to be a year out and have done the co-streaming and Gordondale, but you can't always get what you want. We are actively looking and clearly we look at these projects having good long-term returns and being accretive to add to shareholder value. So all I can say is it won't stop us from looking and acquiring if there are good projects that fit the long-term strategy of AltaGas, the timing won't stop us from looking at those and acting on those. I'm not sure how to answer it any better than that.

Robert Kwan, RBC Capital Markets

Yeah. Maybe if I can, I don't know if you're willing to wrap some numbers around it but with respect to how much equity funding externally would you be comfortable raising to pursue some of these opportunities, assuming that they've got similar types of returns to what you might assign on Gordondale?

David Cornhill, Chairman & Chief Executive Officer

We think we're in good shape for the build out of our existing asset, so new funding equity, you know, clearly—you know, would I be comfortable going to my board with an acquisition of $250 million, $500 million with the right economics during this time? The answer is yes. But we would make sure that we understood the risk and that the long-term return to our shareholders makes sense. So I'm not going to—that type of size wouldn't worry us, making sure that it's the right project.

Robert Kwan, RBC Capital Markets

Okay. And do you have a bias right now to doing something on the construction side like a Gordondale or, you know, are you seeing better opportunities and kind of risk-adjusted returns in terms of acquiring fully operational plants?

David Cornhill, Chairman & Chief Executive Officer

I would say there would be some bias over the next year to more operational than to construction, especially if the construction was during the 2012 timeline. Our major projects group have a lot on their plate right now. But if the construction was more 2013, 2014 we would have more interest.

Robert Kwan, RBC Capital Markets

Okay, that's great. Just a few other small questions. One, the CapEx commitment is up about $100 million; is that just a shifting on the timing?

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

No, that's Gordondale. We did not have Gordondale in committed and so with our regulatory approval in the second quarter we moved it into committed.

Robert Kwan, RBC Capital Markets

Oh, okay. I thought there was also a top line number that moved up as well. The expected CapEx? It went from, I think, $425 million to $525 million and the committed went up by a little over $100 million?

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

No. I'd have to go back and check, Robert, but I thought we were around the $500 million in Q1. It was the committed that changed.

Robert Kwan, RBC Capital Markets

Okay. And then just last can you just refresh what your capitalized interest policy was? I didn't see it in the quarterly release if you've got the amount that was capitalized during the quarter.

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

No, we didn't give it to you in the quarter but in the quarter capitalized interest was about $2 million.

Robert Kwan, RBC Capital Markets

Okay. And then in terms of the policy, is it the effective rate on all debt on 100 percent of the construction in progress, outside of kind of like the quick turnaround stuff?

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

So we use the MTN rates, the average of our MTN rates, and we capitalize based on, ah, if the project is going to take more than six months to construct and $20 million CapEx.

Robert Kwan, RBC Capital Markets

Okay, so greater than $20 million, greater than six months, and how much of the capital out the door? Is it a deemed capital structure or is it 100 percent of the cash that goes out?

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

It's 100 percent of the cash that goes out.

Robert Kwan, RBC Capital Markets

Perfect. Thanks, Debbie.

Operator

Thank you. Once again, please press star one if you have a question. The next question is from Carl Kirst from BMO Capital Markets. Please go ahead.

Carl Kirst, BMO Capital Markets

Thanks. Good morning everybody. Just a couple of clean-up questions. With respect to the FG&P volumes I'm just wondering if there was any impact at all on the system from Mother Nature basically given all that had happened.

David Cornhill, Chairman & Chief Executive Officer

Randy, do you want...?

Randy Toone, Co-President, Gas

We were affected by the forest fire up north. One of our facilities was shut down for about 15 days, and that was doing about 17 million a day. The wet weather didn't necessarily shut any facilities in it just caused some delays on some of the construction projects.

Carl Kirst, BMO Capital Markets

So the 17 million a day was down for 15 days.

Randy Toone, Co-President, Gas

Yes.

Carl Kirst, BMO Capital Markets

Okay. And then just last could you refresh my memory with respect to McLymont and Volcano of—obviously the (IBA) hopefully will be taken care of here shortly; what is kind of best thoughts right now on timing with respect to a PPA?

David Harris, President, Power

This is Dave Harris on the power side.

We turned around and the dates moved for the ratification of the IBA for a couple of different reasons. One, the postal strike didn't help matters with respect to disseminating information and, in addition, wanted to make some improvements, the Tahltan wanted to make some improvements on the ratification process. So we thought those were all wise and healthy things to do. So we've turned around and the new dates for the vote will take place from September 9th through the 15th.

The other important point of note is on Monday of this week the Tahltan released the notice to vote, which they haven't done before. That's actually a big step in the right direction. That's the first formal process that they followed to turn around and trigger the timelines that following the voting. So we're anticipating the ratification to take place on the 15th. The EPAs that are associated with McLymont and Volcano will follow right after that, after we do the ratification process. So we're anticipating about the middle of September.

Carl Kirst, BMO Capital Markets

Great. Thanks guys.

Operator

Thank you. The next question is from Matthew Akman from Scotia Capital. Please go ahead.

Matthew Akman, Scotia Capital

Hi, David. I wanted to follow up on the dividend growth question and understand I guess whether earnings aren't going to factor into the board's decision on whether to raise the dividend going forward. There was a point where I think you said the dividend would be based on some measure of earnings, whether it be adjusted net income, and I'm just wondering whether the board needs to see as one of those checklist items adjusted net income significantly above the dividend level in order to contemplate dividend growth.

David Cornhill, Chairman & Chief Executive Officer

Clearly we look at payout from net income adjusted, because we wouldn't base a dividend on mark to market swings of hedges and things like that. So that's one of the measures as well as with respect to funds from operations. And we look at both of those and clearly we look at our trending this year our funds from operations payout is about 50 but long term, clearly the long-term goal is the board will want to see a path to having dividends as a percentage of net income as well and have that go down significantly from where we were in 2010. So they look at both. And some of it is the trend line that we see in our income growth over the next few years gives us some comfort to have the potential for modest increase before Forrest Kerr comes on.

Matthew Akman, Scotia Capital

Okay, great. Thanks for that clarification. And I guess this one is for Debbie on the cash taxable guidance or the timing of becoming cash taxable. You said, I think, 2016 and I'm a little surprised at that timing simply because it follows directly on the heels of Forrest Kerr, which I would have thought brings a lot of new fast write-off potential to the company. So I wonder if you could just expand on that comment.

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

You and I wish the same thing, Matthew. The CCA rate on hydro is actually relatively low. So we're not seeing, even with the addition with Forrest Kerr coming on in 2014 the write-off is not as quick as you would think.

Matthew Akman, Scotia Capital

Okay. So that 2016 guidance actually does account for Forrest Kerr coming on.

Debbie Stein, Senior Vice-President, Finance & Chief Financial Officer

Yes.

Matthew Akman, Scotia Capital

Okay. Okay, that's all I had. Thanks very much.

Operator

Thank you. There are no further questions registered at this time. I'd like to turn the meeting back over to Ms. Puddell.

Julie Puddell, Team Leader, Investor Relations

Thank you, Donna.

Thanks for your interest in AltaGas. If you have any follow-up questions, please feel free to contact me. Thanks and we look forward to speaking with you again.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
