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Robert Kwan
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PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the AltaGas Income Trust 2010 First Quarter Conference Call and Webcast.

I would now like to turn the meeting over to Ms. Sheena McKellar of Investor Relations. Please go ahead, Ms. McKellar.

Sheena McKellar, Investor Relations

Thank you, Jeanette. Good morning everybody. Welcome to AltaGas' first quarter 2010 conference call.

Speaking today are David Cornhill, Chairman and Chief Executive Officer; Richard Alexander, President and Chief Operating Officer; and Debbie Stein, Vice-President, Finance and Chief Financial Officer. After some formal comments we'll have a question and answer session.

Before we begin I'd like to remind you that certain information presented today may constitute forward-looking statements. Such statements reflect the Trust'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 David.

David Cornhill, Chairman & Chief Executive Officer

Thank you, Sheena, and good morning.

Today I am pleased to announce that our Board of Directors is recommending AltaGas' conversion to a corporation. The vote is expected to take place at our annual general meeting on June 3rd. Following the unitholder vote we expect the board will approve a monthly dividend of \$0.11 per share or \$1.32 annually and the conversion to a corporation will be completed on or about July 1, 2010.

AltaGas continues to pursue significant organic growth, actively developing \$2 billion worth of gas and power projects to completion over the next five years. By proceeding with the conversion now and establishing a competitive dividend we will focus on our growth strategy.

We provided guidance to the market on dividend levels and timing of conversion for over a year. On the dividend level we provided a range between \$1.10 and \$1.40. We came in at the high end of the target range with a dividend of \$1.32. We believe this dividend level is sustainable and has the potential to grow over time. On the timing of conversion we set second half but not at year end and most likely in Q3. We believe that it is time

for AltaGas to move forward and focus on the future. July 1 conversion allows the company and the market to focus on the growth opportunities. Conversion will provide strategic benefits to AltaGas and its unitholders, including a simpler corporate structure, making it easier for the market participants to value AltaGas; greater flexibility to deliver long-term capital growth and reliable cash yield; and enhanced access to capital and fewer restrictions on ownership, resulting in increased liquidity.

While the structure of our company will change, the foundation of our business remains the same. We have the financial discipline, capacity and flexibility to pursue our strategy and we will continue to deliver earnings growth and strong returns to investors. AltaGas has always focused on the financial metrics typically used by corporations such as earnings per share and return on equity. With \$2 billion worth of organic gas and power growth projects under development, AltaGas' future is very bright. Some of these projects will begin generating earnings and boost results this year.

In the gas business this growth includes the \$28 million acquisition of the 28 million cubic feet a day sour gas plant announced yesterday. The plant, which is being built by Monterey Exploration is located in the Groundbirch area of northeast BC targeting the Montney formation and expected to be in service by year end. In response to producer demand we will proceed with expansions in three existing producing facilities, Pouce Coupe, Ante Creek, and Acme. The Ante Creek expansion is now on stream, adding approximately 7 million cubic feet per day of incremental gas. The other expansions, totalling an additional 28 million cubic feet of capacity, are expected to be adding to earnings by Q3 2010. We expect to invest approximately \$56 million into the natural gas distribution business property, plant and equipment to grow our average mid-year rate base by approximately 20 percent in 2010. The Harmattan Co-streaming project, which if approved, is expected to increase extraction production volumes by around 25 percent. The hearing by the ERCB will be in July. This gas business growth is complemented by our power business. The Harmattan Co-gen is on budget and on time and we have received AUC approval on this project.

We are pursuing an 11 megawatt waste heat recovery facility near Crowsnest Pass in British Columbia. BC Hydro selected the project from the 2008 call for clean power and we are in the process of finalizing an electrical purchase agreement with BC Hydro. We are also developing a portfolio of run-of-river hydro projects in British Columbia, including the three northwest projects. These projects have a combined generating capacity of 277 megawatts and are currently the subject of

discussions with the British Columbia government and the First Nations community. We are very optimistic about these discussions. There's a broad support for these projects from local government, First Nations, and various resource and green energy interests.

We continue to build upon our proven renewable project management and construction teams and will continue to add staff as necessary to meet our growth plans. Last week the British Columbia government announced plans to proceed with the approval process for its 900-megawatt Site C hydroelectric project with an in-service date of 2020. AltaGas is encouraged by this provincial support for renewable power generation. We see it as complementary to our hydro projects in northwest BC with planned and staggered in service dates of 2014 through 2016.

As we grow, we are consistently consciously focused on decreasing business risk. We continue to focus on low-risk, long-life infrastructure with stable returns. For example, utilities, renewable projects underpinned by long-term purchase agreements with credit-worthy counterparties and extraction and transmission infrastructure underpinned by long-term fee-for-service contracts.

Our business performed well in the first quarter. We've recorded net income of \$36.4 million or \$0.45 per unit. Our overall results reflect the benefits of the Trust's diversified portfolio of assets and disciplined risk management.

I will now pass the call over to Debbie Stein to discuss our financial results.

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

Thank you, David, and good morning everyone.

First quarter net income was \$36.4 million compared to \$37.5 million in first quarter 2009. Excluding the effect of unrealized gains on risk management contracts, first quarter net income was \$32.4 million compared to \$37 million for the same period in 2009.

Interest expense for first quarter 2010 was \$11.5 million compared to \$5.7 million in the same quarter last year. Interest expense increased due to a higher average debt balance of \$1 billion compared to \$568.6 million for the same period in 2009. The average borrowing rate was 4.6 percent in first quarter 2010, comparable with the 4.7 percent in first quarter 2009.

Income tax recovery in first quarter 2010 was \$5.4 million compared to an expense of \$1.5 million in the same period last year. The decrease in expense was a result of \$5.1 million due to lower income subject to tax and a \$2 million current tax recovery from the natural gas distribution business. These decreases were partially offset by \$1.2 million due to the tax impact on gains from risk management contracts.

Net invested capital for first quarter 2010 was \$43.1 million compared to \$36 million in first quarter 2009. Growth capital in the quarter was \$40 million.

In the gas segment, gross capital included \$26 million for the acquisition of Landis, \$5.6 million for NGD projects, \$9 million for expansion of our field gathering and processing facilities, and \$1.1 million for the Harmattan fractionation project. Within the power segment, growth capital projects included approximately \$2 million to advance our renewable power projects under development and \$1.2 million related to the construction of the Harmattan Co-generation project.

The reduction in long-term investments and other assets in the corporate segment was related to the unrealized losses on equity investments.

Based on projects currently under review, 2010 capital expenditures are estimated at approximately \$250 million with 75 percent for gas and 25 percent for power. As at March 31st approximately \$130 million has been committed.

At March 31, AltaGas had total borrowing capacity of \$816 million. Following our MTN issuance in first quarter we have approximately \$430 million available to support our growth strategy. At the end of the first quarter our debt to total capitalization was 50 percent. Our debt maturity profile increased from 3.6 years at the end of 2009 to 4.4 years at the end of the first quarter of 2010. As we continue to add long-life assets we will pursue longer-term debt to match the cash profiles.

Our revolving credit facilities are coming due this fall. As part of our financing plan and our corporate conversion process, we expect to consolidate our bank credit facilities in the coming months. We are progressing with discussions with our bank group as well as other prospective participants and we continue to be pleased by the keen interest in maintaining and increasing their commitments to AltaGas.

Distributions declared during the quarter totalled \$0.54 per unit or \$43.7 million. Subject to approval of the

conversion plan we expect the Board to declare the first dividend at the time or shortly thereafter of the time of the conversion.

I'll now pass the call over to Rick to conclude the call with a discussion of our operating results and business outlook.

Richard Alexander, President & Chief Operating Officer

Thank you, Debbie.

We reported first quarter consolidated operating income of \$42.7 million, comparable with the \$44.5 million reported in first quarter last year. Excluding gains on risk management, first quarter operating income was \$37.4 million compared to \$43.9 million in the same period 2009.

Operating income in the gas segment increased 15 percent year over year to \$32.6 million in first quarter 2010. The increase was due to the natural gas distribution assets acquired in fourth quarter 2009, higher frac spread, and the expiration of a gas marketing contract which resulted in losses in previous quarters. Operating income also benefited from the addition of Sarnia Storage in the second quarter 2009 and lower operating costs at our processing facilities. The increases were partially offset by the fact that there were non-recurring adjustments to liabilities related to natural gas transactions reported in first quarter 2009. Lower throughput in most FG&P areas and lower volumes processed at extraction facilities also contributed to reduced operating income. Warmer than normal weather in Nova Scotia and Alberta resulted in the natural gas distribution business reporting about \$1 million lower than normal earnings in the quarter.

Spot frac spread prices continued to rise in first quarter 2010, averaging \$35 per barrel, up from \$15 per barrel in the same period 2009. AltaGas realized a frac spread of \$30 per barrel compared to \$25 per barrel in first quarter of 2009. In first quarter 2010 the 11 percent of extraction volumes exposed to spot frac spreads added \$13.9 million of net revenue compared to the same period last year when 13 percent of extraction volume exposed to frac spreads added \$7.5 million of net revenue.

The gas segment is expected to deliver stronger results in 2010 than in 2009. We're planning to invest more than \$56 million in the natural gas distribution business to grow its average mid-year rate base by roughly \$47 million. We also expect higher producer activity in the

FG&P business and incremental earnings from the expansions at Pouce Coupe, Ante Creek, and Acme gas plants. Earnings will also grow due to a full year of operations at Sarnia Storage and the expiration of a legacy gas marketing contract.

We anticipate that 12 percent of total extraction volumes will be exposed to frac spread in 2010. We've hedged approximately two-thirds of 2010 frac spread exposed volumes at an average of \$21 per barrel and approximately 15 percent of 2011 exposed volumes hedged at approximately \$20 per barrel.

The power segment reported operating income of \$16.9 million in the first quarter compared to \$24.1 million in the same period last year. The decrease was due to a lower realized power prices and higher environmental costs. These decreases were partially offset by lower PPA costs and contributions from AltaGas' Alberta commercial and industrial electricity business, which is now reported in this segment. Contributions from Bear Mountain Wind Park also added to results. Bear Mountain is performing as expected given the wind conditions since the wind park began commercial operations in fourth quarter. The Dawson Creek area did experience weaker than normal wind conditions resulting in weaker than budgeted results from the wind farm.

The average Alberta power pool price was \$41 per megawatt hour in the first quarter, down from \$63 per megawatt hour in first quarter 2009. Our average power price received, which includes sale of power in Alberta and BC, was \$62 per megawatt hour compared to \$74.33 per megawatt hour in first quarter 2009. For 2010 almost two-thirds of the power delivered to the Alberta power pool from the Sundance plant is hedged at \$72 per megawatt hour. Hedge volumes were slightly higher than average in first quarter and are slightly lower in the second quarter. Current forward prices, as published in daily broker reports, are about \$50 per megawatt hour for the balance of 2010. Continued low natural gas prices and a temporary over-supply situation have created a pricing environment that management does not believe is sustainable over the long term.

A large coal unit in Alberta was retired at the end of March 2010, resulting in a reduction of base load supply that will not be fully replaced until mid-2011 and improved economic conditions are expected to increase power demand in the province. Offsetting current weakness in the spot market will be a full year of operations at the Bear Mountain Wind Park as well as the addition of the Harmattan Co-generation facility currently expected to be on line in the fourth quarter of 2010. The 13-megawatt gas-fired co-generation facility is expected to cost

approximately \$22 million. All regulatory approvals have been received and the facility is expected to be commissioned in the fourth quarter.

Our corporate segment reported an operating loss of \$6.8 million in first quarter compared to a loss of \$8 million in first quarter 2009. The reduced loss was mainly due to realized and unrealized gains from investment partially offset by higher compensation costs and lower investment income. Excluding the impact of mark-to-market accounting, corporate costs for 2010 are expected to be higher than in 2009 as a result of cost to support our growth initiatives as well as additional costs related to corporate conversion and new financial reporting requirements. Also, corporate segment expects to report lower earnings from equity investments as utility group is now reported in our gas segment.

Our Q1 results reflected the benefits of our diversified portfolio. A number of new assets are now contributing to earnings and we have much more growth to come. We're excited about our future as we continue to deliver on our commitment to create shareholder value in a financially disciplined manner. And with that I'll turn the call back to Sheena.

Sheena McKellar, Investor Relations

Thank you, Rick.

That concludes the formal part of today's call. David, Rick and Debbie are now available to answer your questions. Jeanette, I will turn the call back to you for the Q&A.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift the handset before making your selection. If at any time you wish to cancel your question, please press the pound sign. At this time if you have a question you may press star one. There will be a brief pause while participants register. Thank you for your patience.

The first question is from Nima Billou from Bloom Investment Counsel. Please go ahead.

Nima Billou, Bloom Investment Counsel

Good morning. David, just wanted to commend you on your handling of the dividend issue. I mean it's always pleasant that it's at the higher end of the range but to retain it on a monthly basis and to really listen to the concerns of your shareholder base, I want to say that you handled this issue very well.

David Cornhill, Chairman & Chief Executive Officer

Thank you.

Nima Billou, Bloom Investment Counsel

So thanks very much for that.

Just wanted to get a sense on the power side. When looking at operating income, obviously pricing played a role. On a blended basis it was down 16 percent yet operating income was down close to I guess 50 percent. So just wanted to get a sense, because you are hedged, is that just a matter of depreciation? What's factoring in to the larger unexpected drop in operating income versus pricing?

Richard Alexander, President & Chief Operating Officer

It is partly the depreciation but it's also there were some additional environmental costs in the first quarter compared to last year.

Nima Billou, Bloom Investment Counsel

Okay. Do you expect those costs to diminish over time and then the actual cash flow generation to mimic pricing in terms of quarter-over-quarter growth?

Richard Alexander, President & Chief Operating Officer

Those costs should continue. One of the reasons they were higher this year than last year is the plant was down part of the first quarter last year and so we had more operating time.

Nima Billou, Bloom Investment Counsel

Okay. On the plant acquired yesterday, are there any cash flow metrics associated with it? I'm assuming it's largely a fee-for-service business; is that correct?

David Cornhill, Chairman & Chief Executive Officer

Yes, it will be a capital fee plus flow through op costs.

Nima Billou, Bloom Investment Counsel

Okay. And I guess you guys—you haven't disclosed the cash flow contribution of that.

David Cornhill, Chairman & Chief Executive Officer

No we haven't at this time.

Nima Billou, Bloom Investment Counsel

But you expect it obviously to meet whatever your internal hurdle rates are.

David Cornhill, Chairman & Chief Executive Officer

Yeah, it would be consistent with all our investments in FG&P.

Nima Billou, Bloom Investment Counsel

Okay. When looking at your capital budget for the year, obviously there's some very interesting growth opportunities, especially on the gas distribution side, and it's nice to see a lot of money committed to that stable utility business but only \$130 million is committed so far. Is it a function of acquisitions factoring into that? Or what are you waiting to see I guess before deciding where to redistribute the rest of that capital budget?

David Cornhill, Chairman & Chief Executive Officer

Primarily waiting for regulatory approvals at this point.

Nima Billou, Bloom Investment Counsel

Okay. Well thanks very much.

Operator

Thank you. The next question is from Tony Courtright from Scotia Capital. Please go ahead.

Tony Courtright, Scotia Capital

Thanks very much. Just in relation to the Harmattan co-streaming project, you say it'll increase your extraction capacity by 25 percent?

David Cornhill, Chairman & Chief Executive Officer

Our co-streaming project?

Tony Courtright, Scotia Capital

Yes.

David Cornhill, Chairman & Chief Executive Officer

Yes.

Tony Courtright, Scotia Capital

So is that about then 10,000 barrels or in that vicinity?

David Cornhill, Chairman & Chief Executive Officer

About that range.

Tony Courtright, Scotia Capital

Right. And it's going to a hearing and you're still optimistic that it'll go your way, the decision?

David Cornhill, Chairman & Chief Executive Officer

We are.

Tony Courtright, Scotia Capital

Okay. In terms of power sector in terms of investments during the quarter, you indicated \$2 million on renewables I guess that you're capitalizing; could you review again your policy in relation to capitalization versus expensing such costs?

David Cornhill, Chairman & Chief Executive Officer

I'll pass that on to Debbie.

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

Tony, it's, ah, our policy is ongoing things like salaries and wages and admin costs are expensed. The only thing that we capitalize are third-party expenses that we incurred to move the projects along, so things like preliminary engineering and feasibility studies get capitalized.

David Cornhill, Chairman & Chief Executive Officer

As well as transmission deposits and things like that.

Tony Courtright, Scotia Capital

Okay. And in terms of the northwest hydro projects, is there any clarity in terms of timing? Did I see it suggested that it would be in the summer or something?

David Cornhill, Chairman & Chief Executive Officer

We're working hard to just be ready to start construction in Q3 of this year.

Tony Courtright, Scotia Capital

And are there any particular issues that need to be overcome to reach that or is it just sort of everybody putting their shoulder to the wheel here to get different parties on the same page?

David Cornhill, Chairman & Chief Executive Officer

I'll let Rick speak to that.

Richard Alexander, President & Chief Operating Officer

Really the issues are that we're trying to align all of the interests of the BC government, BC Hydro, BC Transmission and First Nations and AltaGas. So it's a complex process to get everybody aligned in a way that everybody benefits from the various projects. That's what takes time. So we continue to be optimistic that we'll find that solution.

Tony Courtright, Scotia Capital

And the cost that you, estimated cost is now quoted as about \$1 billion; is that—it's slightly higher than previously. Or am I wrong on that count? Has the scope increased?

Richard Alexander, President & Chief Operating Officer

No, no, that's the same number we've been talking about. Remember, it represents three projects, so it's our hope that we'll be able to receive three EPAs out of the process.

Tony Courtright, Scotia Capital

I see. All right. And then a final question for Debbie if I could please. You quoted two figures, Debbie; one was, I think, \$430 million of availability under your credit facilities?

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

Yes.

Tony Courtright, Scotia Capital

But you also mentioned something beforehand, \$816 million, and I forget what that related to.

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

That is the total amount of our credit facilities.

Tony Courtright, Scotia Capital

Oh. All right, thank you. And you still intend to adhere to a general policy of about a ceiling of about 50 percent debt to capital?

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

That is the current plan.

Tony Courtright, Scotia Capital

Great. Thank you very much. Those are my questions.

Operator

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

Robert Catellier, Clarus Securities

Hi. Could you tell me who has the capital risk on the newly-acquired plant from Monterey in the Montney?

David Cornhill, Chairman & Chief Executive Officer

The producer bears the capital risk.

Robert Catellier, Clarus Securities

Okay. What feedback have you received from the rating agencies about your credit rating should the conversion proceed as proposed, including, ah, I assume they're aware of your new dividend level.

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

The rating agencies have the range, Rob. Our discussions with them were on the range and they were comfortable with where the range was and our overall business and financing strategy. And we expect to maintain our credit rating. Keep in mind that this plan played a part in our upgrades last year. So we're

comfortable with where we are with respect to the rating agencies.

Robert Catellier, Clarus Securities

Yeah, the question was just because it's at the upper end of the range so maybe they were targeting the middle of the range.

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

No, when we had discussions with them they were comfortable with the range itself, whether it was at the lower or the higher.

Robert Catellier, Clarus Securities

Okay. I'm very curious to know about the transmission deposits for the \$2 million of capital in the power segment. What projects does that relate to?

David Cornhill, Chairman & Chief Executive Officer

It's California. Walker Ridge.

Robert Catellier, Clarus Securities

Okay. And you said the capacity factor was a little bit weaker for Bear Mountain. Obviously there will be fluctuation in wind generation, that's just the nature of the asset, but can you quantify the degree? Was it off by a couple percent or was it a major impact?

David Cornhill, Chairman & Chief Executive Officer

The first quarter weather across the nation was rather unusual when you see 10, 11 percent warmer than normal when you see anyone watch the Olympics in Vancouver. So it was unusual performance from the wind park and was lower than we had seen in any of our history. So it was unusual and has a material—weather had a material and negative impact on our performance in Q1, both on the wind side and on the natural gas distribution side.

Robert Catellier, Clarus Securities

Yep. And just have you received any feedback, I know it's early but have the producers given you any feedback on proposed changes to the Alberta royalty framework and the competitiveness review?

Richard Alexander, President & Chief Operating Officer

We have talked to producers about it from time to time and our impression is that they generally see the announcements as favourable but given the low gas prices it really hasn't had that much of an impact at this point.

Robert Catellier, Clarus Securities

And, finally, what can you tell us about your compensation philosophy once you change to a corporation, if anything changes at all? And, you know, what I'm targeting here is anticipated changes to incentive compensation plans and whether or not you expect any change of control provisions to be triggered as part of the conversion.

David Cornhill, Chairman & Chief Executive Officer

With respect to comp philosophy, I guess one change is we'll be targeting earnings per share rather than earnings per unit. But we've always focused from a performance level earnings per unit and ROE. That won't change for our short-term compensation. Our long-term are primarily ownership of shares and there may be some minor tweaking there to better align but no significant comp changes there. On change of control with respect to this transaction, it'll have no impact. There will be no change of control.

Robert Catellier, Clarus Securities

Okay, great. Thanks.

Operator

Thank you. The next question is from Linda Ezergailis from TD Newcrest. Please go ahead.

Linda Ezergailis, TD Newcrest

Thank you. I'm wondering if you could clarify a few things for me on your frac business. There was some commentary that you're hedged for 2010 at \$21 a barrel; is that true for the balance of the year as well?

David Cornhill, Chairman & Chief Executive Officer

Yes.

Linda Ezergailis, TD Newcrest

So if we assume for the balance of the year that you're at \$21 two-thirds of your volume?

Richard Alexander, President & Chief Operating Officer

That's correct.

Linda Ezergailis, TD Newcrest

Okay. And then in addition there was an outlook comment about frac spreads expecting to be \$25 for the balance of the year; is that including, is that on a realized basis or is that for the unhedged volumes looking at the forward market?

Richard Alexander, President & Chief Operating Officer

That's the forward market average for the year.

Linda Ezergailis, TD Newcrest

Forward market. Thank you. And there was one of your facilities that had some changes to terms for your frac spread agreements. Can you elaborate at all on that?

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

No, Linda, other than to say what's in the MD&A. We did redo some commercial arrangements that allowed us to enhance the returns on that plant.

Linda Ezergailis, TD Newcrest

Okay, so that's not necessarily pricing but maybe volume?

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

It was pricing.

Richard Alexander, President & Chief Operating Officer

Because of confidentiality we can't really say more.

Linda Ezergailis, TD Newcrest

Okay. And then the volume trend or the outlook for your extraction business, can you comment on that?

Richard Alexander, President & Chief Operating Officer

Yeah, well we talked about 2010. Into 2011 what we're seeing right now is the forward curve is in about that \$21, \$22 range for 2011.

David Cornhill, Chairman & Chief Executive Officer

And on a volume basis we're seeing growth at Younger and strong, steady performance everywhere else except Empress which is somewhat challenged with a small part of our volume. The rest is committed volume processing.

Linda Ezergailis, TD Newcrest

Okay, thank you. And as you convert to a corp. has there been any thought to when the board might consider reviewing dividend levels? As you're probably aware, some of your corporate peers typically do it at year end or toward the beginning of the year once a year. Has there been any thought put into that?

David Cornhill, Chairman & Chief Executive Officer

We thought we would continue the tradition we had as a corporation and as a trust. We'd review it in the August timeframe or the July timeframe in the summer. And the rationale is we completed our long-term planning process we have a year, a half year in, so we would expect to go on an annual basis in Q3 to review our dividend levels.

Linda Ezergailis, TD Newcrest

Or a Q3 adjustment. So the next one would be Q3 2011 then.

David Cornhill, Chairman & Chief Executive Officer

Yes.

Linda Ezergailis, TD Newcrest

Okay. Thank you.

Operator

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

Matthew Akman, Macquarie Capital

Thank you. My first question is just a progress update please on 2011 power hedges in Alberta.

Richard Alexander, President & Chief Operating Officer

We're hedged right now at just over 20 percent in about the \$67 range.

Matthew Akman, Macquarie Capital

Okay, thanks for that.

Richard Alexander, President & Chief Operating Officer

Sorry, \$62. Sorry.

Matthew Akman, Macquarie Capital

\$62. Okay, thanks. Next few questions really relate to trying to understand what the earnings of the company would have looked like in a corporate form, because obviously we're getting there quite soon, and primarily what I'm interested in, and maybe this is for Debbie, is just an update on your expected accounting tax rate for 2011.

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

So on the expected rate, it will be based on the statutory 26 percent. But you can imagine that it would be primarily deferred taxes, not cash tax. We will have a small amount of cash tax as a result of the NGD business.

Matthew Akman, Macquarie Capital

Okay, thanks for that. And so if we're to look at the first quarter, income before tax excluding the unusual item would have been about, I guess, \$26 million. If we were to tax effect that at the 28 or whatever would that be what your earnings sort of would have looked like in a corporate form? Or are we missing something?

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

No, that, for all intents and purposes, would be the benchmark.

Matthew Akman, Macquarie Capital

Okay. And I guess then in light of that I just wanted to come back to David on the dividend policy, because when you announced the new range, David, you were talking, I think you were talking about the dividend being some fraction of earnings and maybe in the sort of 60 to 70 percent range, but at \$1.32 and sort of consensus of \$1.03 in earnings next year it looks like it's going to be significantly higher than 100 percent. I know that's obviously affordable on a cash basis but I'm just wondering if that reflects a change of heart over the last while on payout ratio.

David Cornhill, Chairman & Chief Executive Officer

I think you're not quite remembering what I said. I said with respect to the focus on cash flow we target in the 50 percent range and we would move to a fraction over time as we grow into our dividend. We were looking at about 100 percent to start and we have significant growth coming on that significantly reduces that fairly quickly with our capital coming on. So that's the traditional philosophy we've had and that's where we're at.

Matthew Akman, Macquarie Capital

Sorry, 100 percent of what?

David Cornhill, Chairman & Chief Executive Officer

Net income.

Matthew Akman, Macquarie Capital

So just taking consensus for what this run rate implies of earnings of sort of \$0.23 or whatever in the quarter, as a corporation what's going to change that's going to take that to the dividend level or above the dividend level which is \$0.33 a quarter.

David Cornhill, Chairman & Chief Executive Officer

I guess you'll have to wait and see, Matthew.

Matthew Akman, Macquarie Capital

Okay. Okay, thanks. Those are my questions.

Operator

Thank you. Once again, if you have a question, you may press star one.

Our next question is from Robert Kwan from RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Just coming back to northwest BC projects, the transmission line has moved into the environmental assessment; do you need that to be done before you get an agreement? And then also if you can just comment

on whether the BCTC proposed re-merger back into hydro changes anything.

David Cornhill, Chairman & Chief Executive Officer

Rick?

Richard Alexander, President & Chief Operating Officer

Well the merger doesn't change anything. Our discussions have been directly with BC Hydro, BCTC and the BC government all at the joint table. So for us it's indifferent. In terms of the EA and the transmission line moving forward, we don't need to see that process completed before we have an agreement or an understanding. That's a separate issue. It is obviously important that the EA be provided for the transmission line to move forward and therefore our project but we don't see that as an impediment to the process.

Robert Kwan, RBC Capital Markets

Okay. Just I guess on the EA though, I know you don't see it that way; do you get the sense that BCTC sees it that way? And then just on the re-merger, do you think that process is just going to kind of tie up from a bureaucracy perspective and slow things down?

Richard Alexander, President & Chief Operating Officer

No I don't. I don't see it slowing down or that having any impact on our process whatsoever. And as for BCTC, I guess I can't speak for them.

Robert Kwan, RBC Capital Markets

Okay. Just on kind of the corporate segment, what you booked in the quarter; do you see that as a pretty good run rate going forward?

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

Yes. Other than the impact of risk or hedges.

Robert Kwan, RBC Capital Markets

And then just the last question I have is on the tax recovery in the natural gas distribution segment, do you think you could just give a little bit more colour on that?

Jared Green, Natural Gas Distribution

This is Jared Green here representing the natural gas distribution. Within the natural gas world for accounting purposes they generally don't recognize a future tax. They only have a tax expense related to their cash taxes. And the future taxes end up just sitting on the balance sheets.

Now for 2010 our Alberta utilities has had a significant investment in a customer billing system. With that then they have significant pools available for deduction and the Alberta regulator has directed them to take active deductions on that and create a cash recovery for 2010. So it's a lot of the direction of the regulator.

Robert Kwan, RBC Capital Markets

Now when you say for 2010, has that fast write-off occurred completely in Q1 or should you expect more cash to come in the door throughout the rest of the year?

Jared Green, Natural Gas Distribution

We'll be expecting that for the full year. For the utility group side we have the same effect in 2009 as well.

Robert Kwan, RBC Capital Markets

Okay. Sorry, so the amount, the recovery you booked in Q1, that will continue to recur throughout the year?

Jared Green, Natural Gas Distribution

That recovery is based on our tax, the income that we did have for the first quarter. So we would expect the remaining three-quarters of the year to be very similar what the first quarter recovery is.

Robert Kwan, RBC Capital Markets

Okay, great. That's great. Thank you.

Operator

Thank you. That concludes our question and answer session. I would now like to turn the meeting back over to Ms. McKellar. Please go ahead.

Sheena McKellar, Investor Relations

Thank you, Jeanette. That wraps everything up for us. If there are any follow-ups, please give us a call. Thank you.

Operator

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