CORPORATE PARTICIPANTS

Myles Dougan
Vice-President, Communications & Investor Relations

David Cornhill
Chairman & Chief Executive Officer

Richard Alexander
President & Chief Operating Officer

Debbie Stein
Vice-President, Finance & Chief Financial Officer

David Harris
Vice-President, Major Projects, Power

CONFERENCE CALL PARTICIPANTS

Linda Ezergailis
TD Newcrest

Robert Kwan
RBC Capital Markets

Robert Catellier
Clarus Securities

Matthew Akman
Macquarie

Tony Courtright
Scotia Capital

PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the AltaGas Ltd. 2010 Fourth Quarter and Year End Conference Call and Webcast. I would now like to turn the meeting over to Mr. Myles Dougan, Vice-President, Communications and Investor Relations. Please go ahead, Mr. Dougan.

Myles Dougan, Vice-President, Communications & Investor Relations

Thank you, operator. Good morning everyone. Welcome to AltaGas' fourth quarter 2010 conference call.

Speaking today are David Cornhill, Chairman and Chief Executive Officer; Richard Alexander, President and Chief Operating Officer; Debbie Stein, Vice-President, Finance and Chief Financial Officer; and David Harris, Vice-President, Major Projects, Power.

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, Myles, and good morning everyone.

2010 was a challenging year. We saw slowing activity in field gathering and processing facilities that process dry gas as well as weaker power prices. Despite these challenges, our gas power utility operating businesses together produced stable quarter-over-quarter and year-over-year operating income. We also made tremendous strides in executing our business plan. During the year we took three of our key growth projects from the development stage to construction-ready stage. In addition we completed over $1 billion worth of financing in 2010.

Looking forward to 2011 we expect to achieve higher operating results than we achieved in 2010. The Gas business is expected to deliver stronger results due to higher processing volumes in both field gathering and processing and extraction businesses as well as continuing strong frac spreads. Throughput at our extraction plants are expected to increase over 2010 despite the scheduled maintenance turnarounds at Harmattan and Younger.

In 2011 the Power business is expected to deliver at or slightly lower results due mainly to lower realized price. We will partially offset lower price with increasing generation capacity. If Alberta power prices stay at current pricing levels we could see the Power business deliver stronger operating income in 2011 from 2010. In our Utility business we expect to deliver stronger results in 2011 due to growing rate base and customer growth. AltaGas Utility Inc. and Heritage Gas are expected to spend approximately $46 million in 2011 on expansion, system betterment, and general maintenance.

In 2010 we made excellent progress on our growth plan. We secured $1.4 billion in committed growth projects that are supported by long-term contracts and in 2011 we will begin construction of the Harmattan co-streaming project in the second quarter of 2011. A definitive commercial agreement with NOVA Chemical Corporation to purchase all the ethane and natural gas liquids has been developed and will be executed shortly. Harmattan co-streaming is expected to begin contributing to operating income late in the first quarter of 2012.

Also our Gas business in November we announced plans to construct 120 million cubic feet a day processing facility and gathering system in the Gordondale area. The first phase of the Gordondale project is the Henderson pipeline, which connects to our Pouce Coupe facility. Regulatory approval has been received for the pipeline and construction will commence in March and will be completed in July. We expect to begin processing gas in August 2011. All phases of the $235 million facility are expected to be in service by late 2012.

Now turning to our power business, we completed the construction of a 15-megawatt gas-fired co-gen facility at our Harmattan complex in late 2010. This project was completed on time and under budget. We also have plans to construct a second 15-megawatt co-gen facility at our Harmattan complex. We have placed orders for the $7 million co-gen package. The $24 million project is expected to be completed in early second quarter 2012. In British Columbia we are pursuing a 6-megawatt waste heat recovery power plant in Sparwood. We have a 20-year electrical purchase agreement in place with BC Hydro for this project. We expect to begin construction this year and to be completed in late first quarter 2012.

As we enter 2011 we remain focused on constructing these growth projects on time and on budget and creating significant value for our shareholders. And the largest of these growth projects underway is our Forrest Kerr run-of-river hydro project. I'll pass the call over to David Harris to provide a progress update on Forrest Kerr.

David Harris, Vice-President, Major Projects, Power

Thank you, David, and good morning everyone.

With the start of 2011 Forrest Kerr is truly starting to take shape. Engineering design and procurement are nearing completion of the turbine generator sets and initial tunnelling scope of work for access and surge tunnels. Total all-in equipment and installation costs continue to be within the project budget estimate for the turbine equipment with final negotiations in progress. In addition, bids for the access and surge tunnels have been received and are under evaluation. Costs are also within the project budget estimate for these scopes of work. Both the turbine and initial tunnelling contract should be finalized by the end of the first quarter. By the close of February the intake design will be finished and overall plant optimization will be finalized.

During the third quarter last year road, bridge and camp work started in support of tunnelling activities. Construction activities are slightly ahead of schedule with the road infrastructure and base camp complete and bridge enhancement work to start in late February. Camp occupancy is planned for March with portal work and tunnel blasting scheduled to be well underway in the second quarter.

At the close of 2010 approximately 20 percent of the project cost had been fixed. We expect to have 75 percent of the project cost contractually committed to fixed-price contracts by the end of 2011 and 90 percent contractually fixed by the end of 2012. We will mitigate project cost escalation and schedule risks to our procurement and contracting strategies.

I'll now pass the call over to Debbie Stein to discuss our fourth quarter financial results.

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

Thank you, David, and good morning everyone.

In fourth quarter 2010 AltaGas recorded net income of $26.5 million or $0.32 per share. Excluding the impact of mark-to-market accounting, net income in fourth quarter 2010 was $31.4 million or $0.38 per share. EBITDA excluding mark-to-market accounting was $75.7 million or $0.92 per share and funds from operations were $57.9 million or $0.70 per share in fourth quarter 2010. Interest expense in fourth quarter was $12.1 million compared to $9.3 million in the same quarter of 2009. The increase in interest expense was due to higher average debt balances compared to fourth quarter of 2009. Higher debt balance is primarily due to acquisitions and capital group spending in the last year.

Income tax expense in the fourth quarter 2010 was $6.2 million compared to income tax recovery of $2.9 million in the same quarter of 2009. The increase in income tax expense was primarily due to tax expenses recorded as a corporation. During the first half of 2010 AltaGas reported an effective tax recovery rate of 13 percent compared to an effective tax expense rate of 20 percent in the second half of the year as a corporation. On a full-year basis the effective tax expense rate was approximately 2 percent. The expected effective tax rate for 2011 on the consolidated statements of income is expected to be approximately 23 percent. The tax rate at the consolidated level is lower than the expected statutory rate as a result of the lower tax rate reported by the Utility business and the expected reversal of future income tax liabilities.

Taxes recoverable or payable at the utility are recorded as regulatory assets or liabilities until such time as the taxes are collectable or payable from our utility customers. With current tax pools in excess of $1 billion and a significant capital program, AltaGas does not expect to be cash taxable until approximately 2016.

In the fourth quarter 2010 we restated and amended the Utility group $130 million unsecured extendible revolving credit facility. The facility was increased to $200 million and its term was extended by three years. In fourth quarter we also issued $175 million of senior unsecured medium-term notes.

At the end of the fourth quarter our debt to total capitalization was 42.8 percent. In fourth quarter growth capital was $75 million, maintenance capital of $1.1 million, and admin capital of $2.6 million. Maintenance capital in 2011 is expected to be approximately $7 million.

In 2011 AltaGas expects its growth capital program to be $425 million. Approximately $400 million is committed. The majority of the committed capital includes spending for the Harmattan co-stream project, the Forrest Kerr project, and the growth of the rate base in our Utility business. Based on current expectations of funds from operations, or DRIP, available credit facilities and our access to the capital market and our current debt to total capitalization ratio, AltaGas is well positioned to fund its current capital program.

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

Richard Alexander, President & Chief Operating Officer

Thank you, Debbie.

Fourth quarter 2010 consolidated operating income adjusted through mark to market accounting was $52.7 million compared to $47.4 million recorded in fourth quarter last year. Operating income from the Gas business was $25.9 million in the fourth quarter 2010 compared to $24.5 million for the same period in 2009.

The Gas business recorded higher operating income primarily due to higher extraction fee-for-service revenues, higher realized frac spreads, higher marketing and commodity sales and lower amortization. Spot frac spread prices remained strong in fourth quarter 2010, averaging nearly $35 per barrel, up from approximately $27 per barrel in the same period 2009. AltaGas realized a frac spread of approximately $28 per barrel compared to approximately $26 per barrel in fourth quarter 2009. Higher than average frac spreads are expected to continue through 2011. In 2011 we anticipate that 13 percent of total extraction volumes will be exposed to frac spread. Of these, approximately 70 percent of the exposure has been hedged at an average price of approximately $27. We also expect to process higher volumes in our Gas business in 2011 as a result of expansion projects completed in 2010. Additional expansions and modifications at FG&P and extraction facilities are expected in 2011 to serve higher producer activity levels in areas of the Western Canadian Sedimentary Basin with high natural gas liquids content gas plays for solution gas.

Now turning to our Power business, operating income in the Power business for the fourth quarter 2010 was $20.9 million compared to $22.9 million for the same period in 2009. The power segment recorded lower operating income, primarily due to lower realized power prices, higher environmental costs and higher amortization due to the addition of our Bear Mountain Wind Park asset. These decreases were partially offset by lower PPA costs, increased contributions from gas-fired peaking plants, and the Alberta commercial and industrial retail business. In fourth quarter AltaGas realized an average power price of over $64 per megawatt hour, which includes the sale of power in Alberta and BC, compared to $67 per megawatt hour in fourth quarter 2009. TransAlta recently announced its intention to permanently remove 560 megawatts of generation capacity from the Alberta power market. This creates a more sustainable supply/demand balance in the Alberta power market and has resulted in higher forward power prices. Lower power prices published in broker reports are currently in the low

$60 per megawatt hour range for the balance of 2011, 2012 and 2013. For 2011 we are approximately two-thirds hedged at a price of approximately $64 per megawatt hour for the first quarter. For the second through fourth quarters of 2011 we are approximately one-third hedged at an average price of approximately $65 per megawatt hour. We expect to be able to execute short-term hedges throughout 2011 at premium prices to long-term averages as we have successfully done to date in 2011.

Now turning to our Utility group, operating income for fourth quarter was $9.9 million compared to $7.4 million for the same period in 2009. Operating income increased due to a full quarter contribution from Heritage Gas and Utility Group. AltaGas' diversified gas, power and utility asset base continues to provide stable operating results and our growing operations are expected to deliver stronger operating results in 2011.

We're excited about our future. We continue to pursue our goal of securing over $2 billion of organic growth in the next five years and creating shareholder value in a financially disciplined manner.

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

Myles Dougan, Vice-President, Communications & Investor Relations

Thank you, Rick.

David, Rick, Debbie and David Harris are now available to answer your questions. Operator, I will now turn the call back to you for the Q&A session.

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. At this time if you have a question, please press star one on your telephone keypad. If at any time you would like to cancel your question, please press the pound sign.

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

Linda Ezergailis, TD Newcrest

Thank you. I just have some more questions related to your hedges beyond 2011, and I do appreciate all the disclosure you've provided for 2011 and the fact that it's getting harder to hedge beyond 2011, at least on the power side, but what percentage would you be hedged currently in your Power business and at what levels for 2012? And if you can comment for your frac hedging as well, that'd be appreciated.

Richard Alexander, President & Chief Operating Officer

On the power side we're about 20 percent hedged for 2012.

Linda Ezergailis, TD Newcrest

At what level?

Richard Alexander, President & Chief Operating Officer

Mid-60s. 65, 66, in that range.

Linda Ezergailis, TD Newcrest

Okay. And for your frac spread exposure?

Richard Alexander, President & Chief Operating Officer

The frac spreads, I think we're about 15 percent hedged right now for 2012 at around $24.

Linda Ezergailis, TD Newcrest

And liquidity is still good in 2012? Decent? There's no change for the frac...?

Richard Alexander, President & Chief Operating Officer

No, liquidity is good. We're just sort of being opportunistic as we move forward. The same strategy.

Linda Ezergailis, TD Newcrest

Okay, that's helpful. Just a follow-up question on your Power business. I see that the northwest transmission line has been approved; are you any closer to getting a PPA with the government for your McLymont and Volcano Creek projects?

Richard Alexander, President & Chief Operating Officer

Well I would say we're closer. We continue to be in negotiations with BC Hydro, BC government and the First Nations and we continue to be optimistic that we'll get agreements, but, as I've said previously, with so many parties involved it's just a slow process. But it's still going very positively.

Linda Ezergailis, TD Newcrest

Great. Thank you.

Operator

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

Robert Kwan, RBC Capital Markets

Good morning. Just with respect to the 2011 power guidance being lower than 2010, I just wanted to ask a few more questions about that. David, you did mention it's really realized prices and I assume that's just the attractive hedges you had in place last year but I'm just wondering if there's anything else driving that view. Is it because you see power prices moderating significantly following the KEG line outage and the Keephills 3 coming into service or did Sundance III catch, the planned outage there catch the hedge book at a poor time, or was there just something else?

David Cornhill, Chairman & Chief Executive Officer

No, I just don't want to call a market turn before I'm comfortable the market's turned, so clearly if they stay at current pricing we could see a very positive power outcome this year but I'm just being conservative.

Robert Kwan, RBC Capital Markets

And when you're saying current pricing are you talking about Q1 in that $100 range or are you just talking about—

David Cornhill, Chairman & Chief Executive Officer

More the forward curve and what we're seeing out there.

Robert Kwan, RBC Capital Markets

Okay. And then just on Harmattan co-stream, how long or how quickly do you think them, um, do you expect the leave appeal to be resolved? And as long as that's outstanding what work can you do or what amount of work are you willing to do?

David Cornhill, Chairman & Chief Executive Officer

I'll ask (Greg) to answer that for us.

Greg Aarssen, Co-President - Gas

As far as what the process is, there are two stages. One is there's been a request for review submitted to the ERCB and that process should be, we should know the outcome of that process in the next 60 days. And following that there's an application for names to appeal with the courts of Alberta. There really is no set timing on that. It would be predicated upon whether or not leave is granted. We continue to believe that the ERCB decision stands on its own and at this point in time there is no reason to consider anything other than that. In any event, neither submission made is asking for injunctive consideration so we are proceeding and there's no reason for us not to.

Robert Kwan, RBC Capital Markets

Okay. Even if they're not asking for an injunction is there a chance that you kind of continue to proceed yet the contract would be null and void?

Greg Aarssen, Co-President - Gas

No.

Robert Kwan, RBC Capital Markets

Okay. And then I guess just a last question on the cash tax guidance for no cash taxes, is there kind of an expectation then there would be no cash tax leakage at the Utility?

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

There usually is a small amount of cash tax leakage but it's recovered from customers.

Robert Kwan, RBC Capital Markets

Okay. So basically, all things being equal, we'll see something in the cash tax line but EBITDA will be pushed up. Is that the way to think about it?

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

Yes.

Robert Kwan, RBC Capital Markets

Okay, perfect. Thanks, Debbie.

Operator

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

Robert Catellier, Clarus Securities

I'd just like some updates on some of the milestones for Forrest Kerr. I'm referring to the guidance that was given in the investor day presentation. And it looks like a couple of milestones may have slipped a bit, specifically the release of the turbine generator package was expected in Q4, it looks like it's now the end of Q1 and I'm just wondering what impact this will have, if any, on your commercial operating date.

David Harris, Vice-President, Major Projects, Power

This is Dave Harris. Actually it's more clarification.

The actual package that we sent to the street went out on time, so that's consistent with our milestones, and that was planned for Q4, which it did, and then we received the proposals then in January as expected and actually completed the evaluation process and right now we're actually down to a selected contractor, we just don't want to release that name yet until we actually secure the contract. But the milestone dates we're right on track with. And right now we're still holding solid with respect to a July of 2014 COD date.

Robert Catellier, Clarus Securities

Okay, thanks for that clarification. I was wondering if you can provide some updates on the impact of the turnarounds expected at Younger and the Harmattan Complex, both the timing and, ah, so the offline time, when it might occur, and the financial impact.

David Cornhill, Chairman & Chief Executive Officer

They are Q3. We'll have to give more colour. Debbie?

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

We did provide it in the Gas outlook. I think we said the op income impact of both turnarounds is about $8.5 million.

Robert Catellier, Clarus Securities

So that's $8.5 million total, not each, right?

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

Correct. And I believe Younger is in June and Harmattan is in September.

Robert Catellier, Clarus Securities

Okay. And, finally, I noticed on your website that the company has appointed two co-heads of the Gas division, I was wondering if you could just walk through that process and what the motivation was for making that change.

David Cornhill, Chairman & Chief Executive Officer

The activity level that we're seeing in construction, it just provided better focus. We've talked about with Gordondale and co-streaming and the growth that we see there we felt it was pushing the accountability and control down was where we should go.

Robert Catellier, Clarus Securities

Okay. And my final question has to do with Bear Mountain. How would you characterize the performance in the fourth quarter? And giving your Power outlook what have you assumed the contribution would be for Bear Mountain?

David Cornhill, Chairman & Chief Executive Officer

Some months were good and some weren't and December wasn't a terribly great month for power, but we're expecting more normal what we projected and currently we're on track for that.

Robert Catellier, Clarus Securities

Okay. Sorry, one final question here. Just with the three wind projects that are under development, how much of the capital spending budget includes development money for those three projects?

Richard Alexander, President & Chief Operating Officer

We don't have that number at our fingertips but it's only a few million dollars for 2011.

Robert Catellier, Clarus Securities

Right. So it's not material at this point.

David Cornhill, Chairman & Chief Executive Officer

No.

Robert Catellier, Clarus Securities

Okay, thank you.

Operator

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

Matthew Akman, Macquarie

Hey, guys. I'm just wondering about your hedge strategy for 2012 in Alberta power and I guess beyond given this nice move up that you've seen in the forward power curve but yet still some significant uncertainty, I think anyway, over the Sundance units. And TransCanada I guess has protested TransAlta's proposal to take them permanently out of service. So do you try and accelerate hedging going forward and take advantage of the price move up through 2012 or are you patient on that front?

David Cornhill, Chairman & Chief Executive Officer

I think we would look for hedging at attractive prices. The market is fairly thin for any substantial volume for long-term hedges. We use our commercial industrial retail business to do most of the hedging and that's where we're trying to put on significant hedges at this point. But the market just isn't there for huge moves at this time without significantly moving markets.

Matthew Akman, Macquarie

Even for 2012, David?

David Cornhill, Chairman & Chief Executive Officer

Yeah. We have done some 2012 but it's not very liquid anymore.

Matthew Akman, Macquarie

Do you think that's because of the uncertainty around the Sundance units and this dispute?

David Cornhill, Chairman & Chief Executive Officer

No, I think it's the change in the utility buying pattern that they now have to buy just months in advance.

Matthew Akman, Macquarie

I see. Okay, thanks for that. And I guess in that context maybe if you could just comment on your Alberta wind development and how you decide whether you give that a full green light or not in the context of the pricing, uncertainty or liquidity. What are the main factors there?

David Cornhill, Chairman & Chief Executive Officer

Without some long-term off-take agreements for that project it's very difficult to build merchant wind in Alberta and so I wouldn't see, unless we can have a significant off-take for a good portion of that project, that it would go ahead at this time.

Matthew Akman, Macquarie

Okay, great. Thank you very much for those answers. Those are my questions.

Operator

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

Our next question is from Tony Courtright from Scotia Capital. Please go ahead.

Tony Courtright, Scotia Capital

Thanks very much. I'm wondering if you could just provide a bit of detail on the CapEx, I think it was mentioned, in terms of the second Harmattan co-gen project as well as the BC biomass project with the contract in place.

David Cornhill, Chairman & Chief Executive Officer

The BC is a waste heat recovery op. I'll ask Debbie to give the detailed numbers.

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

So the waste heat is about $13 million and the co-gen II is about $24 million. Sorry, $20 million.

Tony Courtright, Scotia Capital

Okay. And in terms of Q4's CapEx spend, do you have a split between or any allocation to maintenance capital?

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

For 2011?

Tony Courtright, Scotia Capital

No, 2010. Q4.

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

Q4. I thought I'd given that number. Q4 was $1.1 million.

Tony Courtright, Scotia Capital

All right. And in terms of the other two wind projects, you mentioned you need long-term contract in Alberta; do you think there's a higher probability of getting long-term contracts in the two U.S. wind development projects?

David Cornhill, Chairman & Chief Executive Officer

In California we are in negotiations on long-term contracts there and have been. In North Dakota one of the issues that has been a slowdown in the transmission development, that area, has slowed down that project.

Tony Courtright, Scotia Capital

And any view in terms of U.S. exposure, currency or otherwise, or just you would hedge that away?

David Cornhill, Chairman & Chief Executive Officer

At this point we don't have significant U.S. exposure. We haven't crossed that bridge yet in terms of, ah, but generally we try to reduce volatility.

Tony Courtright, Scotia Capital

Great. And lastly, any timing next steps on the Landis natural gas storage opportunity?

David Cornhill, Chairman & Chief Executive Officer

We're in discussions to try to move that forward but at this point we haven't found the magic yet.

Tony Courtright, Scotia Capital

All right. Thank you.

Operator

Thank you. We have no further questions at this time.

Myles Dougan, Vice-President, Communications & Investor Relations

Okay. Thank you, operator, and 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 soon.

Operator

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

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