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OPERATOR: Good afternoon ladies and gentlemen. Thank you for standing by. Welcome to the AltaGas Income Trust second quarter results conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press \*0 for operator assistance at any time.

I would like to remind everyone that this conference call is being recorded on Tuesday, August 10<sup>th</sup>, 2004 at 3:30 Eastern Standard Time, and will now turn the conference over to Ms. Marilyn Pfaefflin, Treasurer.

Please go ahead ma'am.

MARILYN PFAEFFLIN (Treasurer): Thank you. Good afternoon everyone. We'd like to welcome you to AltaGas' second quarter conference call. Joining me today is David Cornhill, Chairman and Chief Executive Officer and Patricia Newson, Senior Vice President and Chief Financial Officer. David will begin by commenting on the results and then we will turn the call over to the conference coordinator for questions.

Before David begins I would like to remind you that certain information presented today includes forward-looking statements. Such statements are subject to certain risks, uncertainties, and assumptions, which could cause actual results to differ materially from those

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contemplated in the forward-looking statements. These risks and uncertainties include operating performance, regulatory and environmental issues, weather and economic conditions, competition and financing availability. For additional information on these and other factors see the reports filed by AltaGas with the Canadian Securities Regulators. AltaGas disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information or future events.

I will now turn the conference call over to David.

DAVID CORNHILL (Chairman and Chief Executive Officer): Thank you Marilyn, and thank you for joining us. We plan today to review the results for the second quarter and for the first six months of 2004. We want to talk about the conversion of our business to an Income Trust, and outline our plans and expectations for the remainder of 2004, and then we will be available to answer questions. I've got a slight cold so I am having a little problem talking, so if my voice is too soft please let us know.

The second quarter was a historic quarter for AltaGas. We began the quarter, April 1<sup>st</sup>, by celebrating our tenth anniversary as an operating company. As we stated in our annual report, we had exceeded our goals to that point, we kept our promises to our investors, to our partners, and to our employees and built one of Canada's largest midstream companies.

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At the beginning of May, following the vote of the shareholders of AltaGas Services, we took another step and reorganized into an Income Trust. The second quarter marks the first quarter as an Income Trust.

AltaGas, with over a billion dollars in market capitalization, is now one of the largest Energy Trusts in Canada. As a Trust, our goal remains the same; to grow, to optimize and diversify our businesses, to pursue opportunities to generate stable and predictable long-term earnings and cash flow, to focus on operational excellence, and to operate a low risk business while maintaining our strong financial position.

Our operating performance in the second quarter was exceptional. As a result we have posted the strongest second quarter and six-month financial results in our history. Q2 was a complex quarter. We were one month as a Corporation and two months as a Trust. During the second quarter, we booked Trust conversion costs, which increased G&A in the quarter by \$3.5 million. The majority of these costs are non-cash. We also booked in the second quarter this year, a major turnaround at Bantry which cost us \$1.3 million. The next major turnaround at Bantry is planned for 2007.

Despite the turnaround and Trust conversion costs our operating margin in the second quarter was higher than the first quarter by about 2 percent when normally, you should expect second quarter to be weaker

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than the first quarter. Normal seasonality in the Natural Gas Distribution business causes a good portion of the lower operating margins, and generally you should expect a decrease in operating margins from Natural Gas Distribution of \$3 to \$4 million in the second quarter from the first quarter. Normal spring breakup also reduces field gathering and processing activity in the second quarter, and you should expect slightly weaker operating and financial results. Field gathering and processing throughput in Q2, actually was up slightly. Extraction volumes were down slightly as normal. Transmission volumes were also up slightly, and we saw strong power prices during Q3 and continued going forward.

On the growth front, AltaGas is in a process of completing several strategic growth initiatives undertaken in the first six months. These include the announcement in March of our intention to acquire BP's interest in the Edmonton ethane extraction plant for approximately \$46 million. This \$46 million dollars will be reduced by a purchase price adjustment as we receive the economic benefit of this acquisition since January 1, 2004. We're estimating that adjustment to be between \$3 and \$4 million. We expect this transaction to close later this month.

In May, we announced that we entered into an agreement to acquire PremStar Energy Canada for approximately \$22 million by way of 993,789 Trust units issued from Treasury, and approximately \$1.2 million in cash.

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This acquisition will also have a purchase price adjustment as we receive the economic benefit of this transaction from April 1 of this year. We are planning to close this transaction in early September.

Just to re-emphasize, on these two transactions we are now receiving the economic benefit, however, they do not yet show up through our income statement.

We also continue to grow organically. Through April we invested \$6 million in internal expansion projects completed in the field gathering and processing component. In this component we have several expansions that will be completed in the third quarter and fourth quarter; these include a Doris expansion with installation of new gathering pipelines and booster compressors; new plant construction at Bantry; Windfall, major pipeline and compression expansion; and many more. You will see announcements shortly on those.

AltaGas' G&P segment continues solid performance gains showing net revenue increases of 18 percent to \$38.8 million in Q2 '04 compared to the same period last year, with field gathering and processing and extraction contributing to the growth, while the transmission component remained relatively flat. Field gathering and processing is very strong. In our field gathering and processing business we increased capability, capacity, and added throughput volumes. AltaGas continues to capture

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the benefit from producer drilling successes, with record tie-ins of 98 in the second quarter and a total of 253 for the first six months of the year compared to 62 tie-ins in the second quarter of 2003, and a total of 147 tie-ins for the six months 2003. This is a 72 percent increase year-to-date.

In the field gathering and processing component net revenue was \$28.4 million for the second quarter compared to \$24 million in the second quarter of 2003, an increase of about 20 percent. For the first six months of 2004 net revenue was \$55 million compared to \$48.3 million in 2003, an increase of about 15 percent.

With regards to transmission; it's stable, very stable and very profitable. Transmission volumes were strong in the second quarter and the first six months of 2004 and will continue to be strong into 2005 with volumes increasing by 29 percent and 30 percent respectively. In the Transmission component net revenue was \$12.4 million for the second quarter, unchanged from the second quarter 2003, and \$13.4 million for the first six months of 2004 compared to \$12.7 million for the first six months of 2003.

In our extraction business, growth is underway. We have benefited from higher production in Q2 as a result of the modifications of the EnCana operated Empress facility that increased ethane production capability during the third quarter of 2003. In the extraction component net revenue

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was \$3.6 million for the second quarter compared to \$2.3 million for the second quarter of 2003, about a 50 percent increase, and \$7.1 million for the first six months of 2004 compared to \$5.3 million in the first six months of 2003.

As mentioned before, we're in the process of finalizing the acquisition of the 48 percent of the Edmonton ethane extraction plant. None of the numbers in the extraction component reflect the economic value that we are accruing for the acquisition from January 1, 2004 as a purchase price adjustment.

In our Energy Services business, look for very strong results in Q4, as well as 2005. Power services shows strong performance as power is influenced by higher generation and increased prices. The Energy Services segment net revenue was \$14.6 million for the second quarter of 2004 compared to \$12.5 million for the second quarter 2003, and for the full six months year-to-date 2004 \$24.4 million compared to \$22.2 million for 2003.

In our Natural Gas Distribution segment you will see continuing growth from Heritage Gas which I will talk a little bit about later. We saw slightly stronger results in the second quarter of this year compared to last year as AUI saw an increase in its customer base. The first six months 2004 results are weaker compared to last year because of slightly warmer

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weather that impacts the utilities' natural gas sales, as well as the result of the general rate application settlement for 2003 rates and a required accrued revenue deficiency adjustment related to customer overpayments during 2003 and into 2004. Natural Gas Distribution's segment net revenue was \$6.2 million for the second quarter 2004 compared to \$5.8 million for the second quarter of 2003 and \$15.9 million for the first six months compared to \$16.4 for the first six months of 2003.

With respect to Heritage Gas, we are seeing growth in Dartmouth with the recent announcement of the first totally gas subdivision in that area with some 120 homes being developed as well as extensive commercial customer sign-up in the Dartmouth area. We're also working very hard at this time to develop a critical mass of customers in Amherst in Nova Scotia, and are receiving a very strong response for gas so hopefully construction will begin there next year.

For 2004, we expect continuing growth in the Gathering and Processing business, and should be well ahead of 2003 as a result of producer activity and significant tie-ins. Energy Services is expected to be ahead of 2003 due to improved power pricing, and operations and more power to sell. Natural Gas Distribution should be flat with the negative impact of the adjustment to the revenue deficiency offset by the growth in Heritage Gas this year.

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With respect to acquisitions as we go forward, I just want to highlight that we have done about \$85 million in acquisitions , over the last eight months. The major impact has not been seen yet in our financial results but will begin to show in the third quarter and fully in Q4 2004 and into 2005. We remain disciplined. We will remain prudently aggressive as I describe it, and we're very actively looking at possible acquisitions at this time. However, we will not do acquisitions that we believe will not deliver long-term shareholder value.

We continue to work hard in enhancing our disclosure. One area I'd like to point out is the capital expenditure section of our MD&A which I think you will find very useful. We also have included calculations of our distributed cash in our MD&A, and hopefully you'll find the tabulated form presentation useful and user friendly. The disclosure should clarify a few issues, and answer a few questions. We will also, in the next few days, be putting on our website some additional information on how we built this business through diversification, how we control risk, and how we've provided a stable low-risk environment. So, that will be on our website over the next couple days.

In closing, I'd like to thank you for the confidence you've showed in AltaGas Services and your continued confidence in AltaGas Income Trust. I will now open it up for questions from the floor, or from the phone.

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OPERATOR: Thank you, one moment please. Ladies and gentlemen, we will now conduct the question and answer session. If you have a question, please press the \*, followed by the 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Your questions will be polled in the order that they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys. One moment please for your first question.

Your first question comes from Maureen Howe, from RBC Capital Markets.

Please go ahead.

QUESTION: Thanks very much. I just have a few pretty simple questions. I'm wondering under what segment you recorded your conversion costs of \$3.5 million?

DAVID CORNHILL: They would be allocated to Energy Services and field gathering and processing, or sorry the Gathering and Processing Segment. I'm guessing about 80 percent goes to Gathering and Processing, 20 percent to Energy Services.

QUESTION: Okay.

DAVID CORNHILL: It's allocated based on capital.

QUESTION: Based on capital, okay, thank you very much. And, the \$20 million of maintenance capex that, well the Company has referred to,

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how would that be allocated in your new capital expenditure breakout across maintenance, growth, and administration? Does the \$20 million all go into maintenance?

DAVID CORNHILL: It goes into maintenance and we also include some of our administration.

QUESTION: Okay.

DAVID CORNHILL: Such as computer systems.

QUESTION: Okay. And then finally, the \$16 million for 2003 capex how would that breakout again between the categories?

PATRICIA NEWSON (Senior Vice President Finance and Chief Financial Officer): 2003 should be broken out Maureen in the table on page 13.

QUESTION: Right.

PATRICIA NEWSON: But, oh, you're talking about the full year.

QUESTION: The \$16 million, yeah. I can always follow-up with you.

PATRICIA NEWSON: I'll get back to you on that Maureen, and we'll post that on our website as well, because we'll need to restate those historical categories as well.

QUESTION: Okay, that's great, thank you very much.

OPERATOR: Your next question comes from Winfried Fruehauf, from National Bank Financial

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Please go ahead.

QUESTION: Thank you. David, you spoke of recording economic benefits from the BP and PremStar acquisitions, exactly how do you define economic benefit?

DAVID CORNHILL: There will be a purchase price adjustment from the Edmonton ethane extraction plant and the agreed upon purchase price of \$46 million. There will be a purchase price adjustment from January 1 to reduce that price at closing.

QUESTION: Okay. And, you mentioned that is \$3 million to \$4 million?

DAVID CORNHILL: Yes.

QUESTION: And, for PremStar you mentioned that's the same reduction in your purchase price by \$1.2 million?

DAVID CORNHILL: No, the transaction was units plus cash. You can estimate probably that's the number Win.

QUESTION: Okay. Okay. And, you said that you had not shown the acquisition costs, nor any revenues or costs associated with these two acquisitions so far?

DAVID CORNHILL: The only cost that I'm aware of is the interest cost related to the deposit of \$7 million for the Edmonton ethane extraction plant.

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QUESTION: Okay. Regarding Energy Services would you please provide for your electricity business the second quarter operating income for both 2003 and 2004, as well as the second quarter variances for 2003 and 2004?

PATRICIA NEWSON: I don't have those in-hand right now Win; I'll have to get that to you.

QUESTION: Okay.

PATRICIA NEWSON: We don't normally breakout electricity separately from the gas business, but you could, looking at the Energy Services segment at this point, estimate 95 percent of it is the electricity business.

QUESTION: Well indeed, the electricity business really is responsible for generating the entire increase in net revenues year-over-year and second quarter 2004 with second quarter 2003, which leads me to the conclusion that the other businesses on the Energy Services were a little bit disappointing in their contribution given that you had more volume, more business, is that correct?

DAVID CORNHILL: You're talking Energy Services?

QUESTION: Yes.

PATRICIA NEWSON: Compared to G&P.

DAVID CORNHILL: The growth was both in the G&P and Energy

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Services year-over-year. In the G&P segment there was the \$1.7 million turnaround at Bantry, which is a three-year type of investment, which we expensed all in the quarter, and at an operating income level the vast majority of the conversion costs which were charged against the Gathering and Processing segment because it's based on an asset basis allocation. These two items dampen the actual strength of the Gathering and Processing segment.

QUESTION: Okay. You mentioned earlier for both Gathering and Processing and Energy Services growth in the second half of this year versus the second half of last year and also in 2005 over 2004, is that correct?

DAVID CORNHILL: Yes.

QUESTION: And, could you maybe explain what it will take, or what you expect will happen for your electricity business to be stronger in the second half of this year, and also in the year 2005 over 2004, in other words, what are the drivers of the better performance?

DAVID CORNHILL: We expect to see some additional power become available to us, as well as we expect improved pricing over the second half of the year and moving into 2005 compared to 2004. A major long-term contract is coming up in 2005 with a significant increase in pricing available.

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QUESTION: You mentioned more volumes that you will have available, either in the second half of 2004 or 2005 or in both periods, does this mean that you are about to purchase additional capacity, or will you simply increase the utilization of your existing 453 megawatts of capacity?

DAVID CORNHILL: We expect there will be new capacity coming available.

QUESTION: Approximately how much, and also would this be PPA?

DAVID CORNHILL: I'm not going to say. I can't comment on that right now.

QUESTION: Okay. Would this be of the PPA variety, or would it be through a separate contract with the private developer?

DAVID CORNHILL: I can't say any more than that.

QUESTION: All right.

DAVID CORNHILL: But, expect to see increases.

QUESTION: And would you also expect to increase your capacity utilization? You're currently running at about 87 odd percent or so.

DAVID CORNHILL: No, any increase won't have an impact to us. It goes to TransAlta. We're guaranteed a minimum volume, a fixed volume no matter what.

QUESTION: Okay. Thanks very much.

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OPERATOR: Your next question comes from Robert Catellier, from Clarus Securities

Please go ahead.

QUESTION: Can you comment on how much of your power book you have hedged for the remaining of 2004 and 2005?

DAVID CORNHILL: Substantial for 2004.

PATRICIA NEWSON: We are on target.

DAVID CORNHILL: On target with 2005, but we are not going to let the market know our position at this point. Power The prices are in the low-\$50's currently.

QUESTION: How much throughput did the Gibson facilities contribute in the quarter, and how can you describe their growth since its acquisition?

DAVID CORNHILL: They contributed in the high 20s in terms of Mmcf/d of throughput from the time of acquisition in December. There is growth opportunity with significant drilling activity in the Pouce Coupe area right now. It is a competitive area. Rainbow has gas behind it and is at full capacity. There are some restrictions on the downstream pipeline that are limiting our growth there right at this moment.

QUESTION: Can you explain the nature of the delays on closing PremStar?

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DAVID CORNHILL: Primarily contractual reviews, and some tax planning issues. When we initiated the discussions with Premstar we were a Corporate and there are certain tax advantages that we have tried to structure for our unitholders in this transaction to improve the tax efficiency which has added a layer of complexity that we originally didn't expect.

QUESTION: Right, so they're beneficial delays, and it has nothing to do with the due diligence process?

DAVID CORNHILL: No, not in terms of from a value perspective, not at all.

QUESTION: What is the remaining, the contemplated amortization period for the remaining conversion costs that haven't been expensed or charged to shareholder and capital?

DAVID CORNHILL: They'll be gone in less than two years.

DAVID CORNHILL: I was just told two and a half years.

QUESTION: All right 2.5 years. Just in following your conversation about allocating the \$3.5 million one-time charges, I conclude from that you haven't allocated any of that expense to the Natural Gas Distribution business?

DAVID CORNHILL: No. We have not since it is a regulated entity.

QUESTION: Right. Finally, with the relatively robust power prices we're seeing do you plan to change your hedging strategy at all, or are you going

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to stick to your knitting?

DAVID CORNHILL: We're quite comfortable with our current hedging strategy. We think it's the lowest risk profile for us, and we'll stick to our knitting.

QUESTION: Okay, thanks.

OPERATOR: Your next question comes from Winfried Fruehauf, from National Bank Financial.

Please go ahead.

QUESTION: Thank you. Is it possible for you, and are you willing to disclose for the second quarter and the first half of this year versus the comparable periods the operating income contribution from assets and businesses that were in place as of the last day of December last year compared with new businesses and new assets that have been put into place since the beginning of this year?

DAVID CORNHILL: At this point, other than new capital, growth capital, all of our businesses were in place at December 31<sup>st</sup>. I think the growth capital was probably just under \$16 million for the first six months, and we did break that out between Gathering and Processing and Natural Gas Distribution in the quarterly. Natural Gas Distribution is primarily Heritage.

QUESTION: Okay. Regarding your segmented reporting for the

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second quarter of this year, would it be fair to say that you have allocated provisionally all of the conversion costs to Gathering and Processing?

DAVID CORNHILL: I think the number is 80 percent to Gathering and Processing, and 20 percent to Energy Services.

QUESTION: Oh, you have already broken it out in that way?

DAVID CORNHILL: Yes.

PATRICIA NEWSON: Yes.

QUESTION: And, I have one more question on the conversion costs, what is the total conversion cost, and what is the breakdown between what you have expensed so far this year and what you will amortize over the next two and a half years?

PATRICIA NEWSON: We're expecting Win about \$14.5 million in total costs. We've capitalized against unitholders' equity \$7 million to June 30<sup>th</sup>, and we've expensed about \$3.5 million to June 30<sup>th</sup>, so that leaves about \$4 million to come over the next two and a half years or so.

QUESTION: That's helpful, thanks very much. That's all I have.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time please press the \*, followed by the 1. As a reminder, if you are using a speakerphone please lift the handset before pressing any keys.

There are no further questions at this time, please continue.

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MARILYN PFAEFFLIN: I think we'll end the conference call operator. Thank you very much for everyone attending, and talk to you next quarter.

OPERATOR: Ladies and gentlemen, this concludes your conference call for today. Thank you for participating. Please disconnect your lines.

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