

CORPORATE PARTICIPANTS

Debbie Stein

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David Cornhill

Chairman, President & Chief Executive Officer

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Senior Vice President Finance & Chief Financial Officer

Marshal Thompson

Senior Vice-President, Gathering & Processing

Jim Bracken

Senior Vice-President Energy Services & Power

CONFERENCE CALL PARTICIPANTS

Linda Ezergailis

TD Newcrest

Fai Lee

RBC Capital Markets

Robert Catellier

Clarus Securities

PRESENTATION

Operator

Please stand by, your meeting is about to begin. Please be advised that this conference call is being recorded

Good afternoon, ladies and gentlemen and welcome to the AltaGas Income Trust 2006 Second Quarter Conference Call and Webcast. I would now like to turn the meeting over to Ms. Debbie Stein, Vice-President Controller. Please go ahead, Ms. Stein.

Debbie Stein, Vice-President Controller

Thanks, Mary. Good afternoon everyone. We would like to welcome you to AltaGas' second quarter 2006 conference call.

David Cornhill, Chairman, President and Chief Executive Officer, will begin with a few remarks on the second quarter and our outlook for the remainder of the year, and Rick Alexander, Senior Vice President Finance and Chief Financial Officer will follow with a discussion of our financial results. We'll then be available to answer your questions.

Before we begin, I would 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 are subject to certain risks which could cause actual performance and financial results in the future to vary materially from those contemplated in the forward-looking statements.

For additional information on these risks, see the Trust's annual information form under the heading "Risk Factors." David?

David Cornhill, Chairman, President & Chief Executive Officer

Thank you, Debbie, and thank you for joining us this afternoon. Welcome to our second quarter conference call.

Earlier today we announced another quarter of continued growth at AltaGas. Our year to date net income was \$58.5 million, or \$1.06 per unit, an increase of 25 percent over the first half of 2005. Both these periods included one-time significant and similar size items, namely the

future income tax benefit of approximately \$6.6 million this year and a \$7.9 million gain from the sale of AltaGas units [should have been “Taylor units”] in 2005.

We are also pleased to announce the second increase in our monthly distributions this year. Given our strong financial performance and the expected sustainability of our earnings and cash flow, the board was pleased to approve and increase our monthly distributions to \$0.17 per unit from \$0.165 per unit, payable starting September 15th.

Net income for the second quarter increased 57 percent to almost \$30 million and net income per unit increased to \$0.54 from \$0.35 last year.

Similarly to the first quarter of this year, the growth in second quarter net income was due to higher power prices we received on power sold and lower transmission cost in the Power Generation segment, lower interest expense and high frac spread in our extraction and transmission business. In addition, the future tax benefit resulting from the reduction in the Federal and Alberta corporate tax rates also increased the results in the quarter.

These increases were partially offset by higher administration cost and the expiry of the Genesee Power Contract as well as lower contribution from the Field Gathering and Processing segment in the second quarter.

As the results indicated, our Power Generation and Extraction and Transmission segments performed strongly in the quarter. The Field Gathering and Processing segment continued to deal with some operational issues at Bantry and Rainbow Lake that began in the first quarter. As a result, the benefit from new and expanded facilities we had added over the last few months were more than offset by planned and unplanned downtime at Bantry and upstream disruptions at Rainbow Lake,

The Energy Services segment accounted for less than 2 percent of the operating income in the second quarter of 2006. Energy Services continues to take advantage of the energy value chain optimization opportunities with our other businesses, including managing our Field Gathering and Processing customer volumes, authorizing extraction and transmission volumes and effectively managing our gas peaking plants. This value is included in the other segments.

I'd now like to spend a few minutes discussing our Field Gathering and Processing business environment, as you

have probably read many reports recently indicating a slowdown in drilling activity in the Western Canadian Sedimentary Basin. The Petroleum Services Association of Canada has revised its well count for the year down by almost 3,300 wells due to a drop in natural gas prices and rising cost being experienced in the oil patch. We expect the impact of this pullback to be short-lived and that gas prices will increase as winter approaches.

One of the reasons we are optimistic is current market price for AECO gas for this winter is around \$9 per gigajoule compared to a couple months ago when this gas was trading at \$6 to \$7 per gigajoule. Even current prices are up from the \$4 to \$5 level reached earlier this summer, since hot weather across North America has increased natural gas demand for power generation.

We had 57 well tie-ins in the second quarter, down from 85 in the second quarter of 2005. Year to date tie-ins were 195 wells, down from 224 last year. Producers continue to connect wells they have drilled in recent months, as demonstrated by an estimated 30 wells being connected in July, putting us back on track to be consistent with last year's tie-in numbers. We anticipate this trend to continue.

The vast majority of AltaGas' customers have not indicated that they intend to reconfigure their capital programs. In addition, we know we have gas behind pipe at our recent expansion sites such as Prairie River.

Moving on to the Extraction and Transmission segment results, we are up 24 percent over the second quarter of last year and 13 percent year to date, primarily due to higher frac spreads. Given the typical rise in demand for propane due to crop drying and space heating and the expectation that oil prices will remain high, frac spreads are likely to remain higher than historical levels. For July, frac spreads averaged over \$20 per barrel.

We had another very strong quarter in our Power Generation segment despite the loss of 100 megawatts of power from the Genesee contract that expired on March 31st. The average price received on sale of power, which includes both our hedged and spot sales, was over \$60 per megawatt hour, up almost \$10 from the same quarter last year.

For the first half of the year, our average price received was just under \$61 compared to \$50 per megawatt hour in the first half of 2005 and the average Alberta power pool price of \$55 per megawatt hour.

We continue to expect power generation results to be strong for the remainder of the year as they continue to

benefit from strong power prices on hedge volumes. The market prices we've currently seen for the rest of 2005 [should have been 2006] and 2007 are in the mid-60 range and we continue to lock in prices for 2007.

As you may have heard, we experienced strong power prices in Alberta in July resulting from some outages at coal plants and extremely hot weather. AltaGas generators were producing near full capacity during this time, resulting in increased revenue from unhedged portion of our portfolio.

We continue to anticipate that the reported results in the Energy Services segment will be lower than 2005 due to the change in allocation of cost to this small segment. We do expect to deliver improving operational income over the remainder of the year, driven by growth in energy management fees and margins locked in by fixed price supply contracts.

Before I turn the call over to Rick to discuss the financial results in more detail, I'd like to mention that the Bear Mountain Wind Project bid was accepted by BC Hydro on July 27th. We have received the electrical purchase agreement. In terms of next steps, BC Hydro has changed the timing back to the original schedule and we are expected to respond by the end of August.

In addition to the Bear Mountain Wind Project, our growth plans continue on track. In the Field Gathering and Processing segment we have announced approximately \$30 million worth of expansions and acquisitions year to date and are well on our way to meet our annual target of more than \$40 million of capital spending on internal growth projects in this segment.

We are making progress on our GreenWing Wind Power Partnership in developing projects particularly in Manitoba and North Dakota where we continue to accumulate land.

In May, construction commenced to increase capacity on ethane recovery plant, our Edmonton ethane recovery plant. Completion of this work is expected by the end of October. This project will increase ethane extraction efficiency at the plant by approximately 6 percent to 90 percent. It will also increase the processing capacity up by additional 15 million a day. The changes are expected to increase ethane production at the plant by almost 10 percent on an annualized basis.

Overall, we continue to expect strong growth in earnings per unit over 2005 reported levels and are setting the stage for continued growth in 2007.

I will now turn the call over to Rick.

Richard Alexander, Senior Vice President Finance & Chief Financial Officer

Thank you, David, and good afternoon everyone. Today I'd like to highlight the key financial results discussed in our second quarter news release, which you can find on our website.

Overall, second quarter net income was \$29.9 million, or \$0.54 per unit. This is up from net income of \$19.1 million reported in the second quarter last year, or \$0.35 per unit. The weighted average number of units outstanding increasing by 1.4 million to 55.2 million units, mainly due to our DRIP.

For the first half of 2006, net income climbed 25 percent to \$58.5 million from \$46.7 million in the first half of 2005. On a per unit basis, the numbers were \$1.06 compared to \$0.87 in 2005.

As David noted, the year to date net income for 2005 included \$7.5 million from our Taylor investment. The 2006 results included a \$6.6 million future tax benefit, which I will discuss further in a few minutes. Adjusting both years for these items, our second quarter net income increased 18 percent over last year while our year to date net income rose by 32 percent compared to 2005.

We are quite pleased with the results, especially when you consider that in 2005 the Natural Gas Distribution segment added approximately \$2 million to net income while the 2006 year to date numbers include a much smaller contribution of approximately \$600,000 from Utility Group.

Now I'd like to briefly discuss operating income in our segments. Operating income in the Field Gathering and Processing segment was down 30 percent in the second quarter compared to the same quarter in 2005. Average throughput was 565 million cubic feet per day, up slightly from 561 million cubic feet per day in the second quarter of 2005, despite additional capacity of 86 million cubic feet per day. Average utilization was down to 56 percent from 62 percent in the second quarter of 2005.

Two major factors impacted the performance of the FG&P segment this quarter. First, operational issues at the Bantry facility and upstream disruptions at the Rainbow Lake plant began in the first quarter continued into the second quarter. This decreased utilization by 1 percentage point, or throughput by 6 million cubic feet per

day. These operational issues were resolved by the end of the quarter and we expect stronger performance in the third quarter, even with the one-week turnaround scheduled for Rainbow in September.

The second factor impacting performance in the quarter was that the new capacity of Blair Creek, Clear Prairie, and Princess is not yet operating at normal levels. This decreased our utilization by another 3 percentage points. These three plants are now running at 42 percent utilization and we expect them to continue to ramp up over the remainder of the year as area producers continue to bring on production.

In addition, we expect to have additional throughput due to the modifications at the Prairie River and Iron Creek facilities that we announced in April as well as to the addition of the Clear Hills gas plant, which is expected to be in service by the end of August.

In the first half of the year, Field Gathering and Processing operating income was down less than 4 percent, since the impact of the issues at Bantry and Rainbow were offset by the receipt of approximately \$1 million from take or pay contractual provisions in the first quarter of 2006.

Moving to the Extraction and Transmission segment, results were up almost 24 percent over the second quarter last year and 13 percent year to date to \$9.4 million and \$17.7 million respectively. The increases were primarily due to higher frac spreads.

Frac spreads were over \$22 per barrel this quarter and averaged about \$18 per barrel in the first half of 2006 compared to \$10 in the same periods of 2005. The volumes exposed to frac spreads contributed approximately \$2.6 million in net revenue in the quarter, up from about \$800,000 in the second quarter of 2005. Year to date these volumes contributed more than double the amount of net revenue in 2005 at \$4.1 million.

I should note that as a result of the contractual arrangements in place, the lower transmission volumes we saw in both periods and the lower extraction volumes in the year to date period had minimal impact on our financial results.

Moving on to the Power Generation segment, operating income was up 54 percent in the quarter to \$18.5 million from \$12 million in the second quarter of 2005. In addition to the higher power prices received, transmission costs for Sundance dropped by about \$3 million in the quarter compared to Q2 05 due to the changes in the transmission tariff methodology that went into place on

January 1 this year. Offsetting these decreases in cost, the expiration of the Genesee contract reduced net revenue by approximately \$4 million in the quarter compared to what revenue would have been had we still owned the contract.

Year to date operating income of \$41.3 million in the Power Generation segment was twice as high as in the first half of 2005. Again, these increases were due to higher power prices received and lower transmission costs.

Energy Services operating income was down to \$400,000 in the quarter, from \$700,000 in the second quarter 2005, mainly due to higher costs in 2006, non-recurring credits in 2005, reduced activity in our gas services business, and a decline in production volumes. For the first half of this year, Energy Services operating income was \$1 million compared to \$2.5 million in the first half of 2006.

Operating and administrative expenses in the segment increased by \$900,000 in the second quarter of 2006 compared to the same quarter last year. This was due to the acquisition of iQ2, a change in the basis on which shared services costs were allocated, and a settlement on legal claim related to energy contract in the second quarter of 2005.

In the second quarter of 2005, the Natural Gas Distribution segment contributed operating income of \$300,000 and a net loss of approximately \$900,000. This loss was due to the seasonal nature of the distribution business. With the spinout of the Natural Gas Distribution segment in November of last year, we now hold a 27 percent share of AltaGas Utility Group, and therefore included a loss of approximately \$200,000 in our Corporate segment this quarter.

The Natural Gas Distribution segment contributed \$5.5 million to operating income in the first half of 2005, or approximately \$2 million in net income, compared to the \$600,000 from Utility Group that we have included in the corporate segment for the first six months of this year.

In the second quarter, the Corporate segment had an operating loss of \$6.3 million, which was \$2 million higher than in the same period in 2005. The increased cost of the segment was due to higher general and administrative expenses primarily as a result of general cost escalations and costs incurred to meet new certification requirements for reporting issuers of the Canadian Securities Administrators.

Year to date the Corporate segment had an operating loss of \$9.9 million compared to operating income of \$1.1

million in the first half of 2005. Our Taylor investment added \$8.6 million to operating income in the first six months of 2005, which accounts for the majority of the year to date difference. In addition, the cost to meet certifications requirements have totalled \$1.2 million to date in 2006 compared to less than \$100,000 in the first half of 2005.

Operating and administration expenses in the Corporate segment were up \$2.6 million in the second quarter and \$3.7 million in the first half of the year compared to the same periods in 2005. These increases were due to cost to comply with securities regulations and to the growth in our operations.

Moving on to discuss some consolidated numbers, the reduction in amortization costs in the first half of the year are due to the distribution spinout, business spinout, which was partially offset by the growth in Field Gathering and Processing capital investment, the addition of iQ2, and by increased depletion expense for oil and gas properties. In the second quarter the decrease was also offset by amortization related to the acquisition of energy services contracts.

Our second quarter interest expense decreased by 32 percent to \$3.4 million compared to the second quarter of 2005. This was due to lower average debt balances as a result of using the proceeds of the spinout of the distribution business, to pay down debt at the end of 2005, and to a lower average borrowing rate of 4.9 percent, which was 100 basis points lower than in the second quarter of 2005. Year to date interest expense was down 34 percent to \$6.7 million.

As previously mentioned, income taxes had a large impact on our second quarter results with a tax recovery of \$7.3 million compared to a recovery of \$2.1 million in the second quarter of 2005. The increase was a result of the federal and Alberta government income tax rate reductions, which resulted in a non-recurring reduction in tax of \$6.6 million in the second quarter. \$2.4 million of that was provincial and \$4.2 million was federal. Before the non-recurring reduction, income tax recovery was \$700,000.

Our income tax recovery for the six months of 2006 was \$4.2 million compared to a recovery of \$600,000 in the first six months of 2005. Net of the reduction due to the government tax rate changes, income tax would have been \$2.2 million. That expense was due to higher net income in the first half of the year. In addition, the effective tax rates in 2005 were reduced by the Taylor capital gain and income taxes reported included an

expense of \$1 million related to the Natural Gas Distribution segment.

Moving on to our balance sheet, debt levels on June 30, 2006 were \$277 million, or \$8 million higher than they were at the end of 2005. Our total debt to cap ratio was 35.5 percent, down from 36 percent at year end. Our balance sheet remains strong, positioning us well to capitalize on growth opportunities when they arise.

In regards to cash flow, funds from operations for the quarter were up 16 percent to over \$35 million and increased 25 percent in the first half of the year to \$77 million. The 2005 funds from operations included funds from the distribution business but not the \$7.9 million after-tax proceeds for the Taylor disposition, which were reported as an investing activity in the first quarter of 2005.

Second quarter 2006 distributions declared were \$0.495 per unit or approximately \$27 million. This resulted in a payout ratio of 77 percent of funds from operations compared to just under 80 percent in the second quarter 2005. The year to date 2006 payout ratio was down to 70 percent from 78 percent of funds from operations in 2005.

Finally, new invested capital in the quarter totalled \$15 million, up from \$10 million in the second quarter of 2005. Year to date we have invested almost \$34 million, up from \$16 million in the same period of 2005. I'll remind you that these numbers are not net of disposals, which were minimal in 2006 but totalled more than \$12 million in the first half of 2005 when we disposed of the Winefred processing facility and some of our Taylor units. The invested capital tables in our MD&A give you a detailed view of where we have spent our capital this year.

With that, I will now turn the call back to Debbie Stein.

Debbie Stein, Vice-President Controller

Thank you, Rick.

That completes the formal part of our conference call this afternoon. David and Rick as well as Marshal Thompson, Senior Vice-President, Gathering and Processing, and Jim Bracken, Senior Vice-President Energy Services and Power are now available to answer your questions, and operator, I'll now turn the call over back to you for our question and answer session.

QUESTION AND ANSWER SESSION

Operator

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

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

Linda Ezergailis, TD Newcrest

Thank you. I'm wondering if you can provide us with some more colour on your Bear Mountain partnership, ah, in addition to the fact that it's a 120 megawatt project?

David Cornhill, Chairman, President & Chief Executive Officer

We're just in the process of finalizing all the next steps. The project is, as you know, in the Dawson Creek area, looking at on-date service about 2009 going forward and we're working with our partners now to firm up all the final plans. We have solid wind data there and have worked with the local communities. So we're just finalizing the process and over the next couple of weeks looking to move forward to get that project going.

Linda Ezergailis, TD Newcrest

Okay. My perception is most of the other bid winners have disclosed cost estimates, capital cost estimates; can you provide us with that?

David Cornhill, Chairman, President & Chief Executive Officer

Not at this time we can't.

Linda Ezergailis, TD Newcrest

Have you secured wind turbine and other capital equipment?

David Cornhill, Chairman, President & Chief Executive Officer

We have secured access to turbines for this project are all in place.

Linda Ezergailis, TD Newcrest

Okay. And can you let us know what the term of the contract is in terms of years or...?

David Cornhill, Chairman, President & Chief Executive Officer

We haven't, but it's got a twenty in front of it.

Linda Ezergailis, TD Newcrest

Twenty something. Okay.

David Cornhill, Chairman, President & Chief Executive Officer

I think there was a TV program once at thirty something too.

Within the month we'll finalize this and we'll provide more data.

Linda Ezergailis, TD Newcrest

Okay. In terms of maintenance activity, year to date you're tracking a little bit below I guess what I was expecting; can you give us some more colour on the second half of the year, how long the Rainbow, the scope of the Rainbow Lake activity and what's in Q4?

David Cornhill, Chairman, President & Chief Executive Officer

Rainbow was a week and that will all hit the P&L, not capital. And there's no significant other turnarounds scheduled for this year.

Linda Ezergailis, TD Newcrest

All right. And can you also give us a little bit of colour on your power hedges for the balance of the year and what you're starting to lock in for 07 and what you're seeing in terms of pricing for 07 and beyond if you can.

David Cornhill, Chairman, President & Chief Executive Officer

I'd say generally consistent throughout the year 2006 and we're, ah, we don't like to let the market know where we are but we're consistent with our previous practices for 07. We have locked some in as far out as past 2010, small amounts of power, and 2007 market price is somewhere in the mid-60s at this point.

Linda Ezergailis, TD Newcrest

Okay. And the depth of the market is there in terms of, um, if you wanted to lock stuff in it would be there?

David Cornhill, Chairman, President & Chief Executive Officer

We're able to lock things in.

Linda Ezergailis, TD Newcrest

Okay, that's great. And I guess just in terms of the drilling activity and the fact that you're still getting tie-ins, can you provide some colour as to how AltaGas is bucking the trend? Are you cannibalizing from other plants or what's going on there?

David Cornhill, Chairman, President & Chief Executive Officer

We've seen a lot of drilling that hasn't been tied in yet, so we're seeing that backlog coming on. I think the other thing is the slowdown will be beneficial in terms of actually being able to get crews to tie-in wells. I know that has been an issue as well in terms of just getting the crews to tie-in wells, so that also helps on producers apps, so we haven't seen, as we said in our numbers, our second quarter was down slightly, July's coming in strong, and we're expecting continuing. Some of the work that we've done historically is some of...the most

economic gas to drill is in our areas, so we think a lower price is still economic to get a return on gas wells in most of our areas.

Linda Ezergailis, TD Newcrest

Okay, that's great. Thank you very much. I'll jump back in the queue.

Operator

Thank you. The following question is from Fai Lee from RBC Capital Markets. Please go ahead.

Fai Lee, RBC Capital Markets

Thanks. David, I just want to clarify. So looking at your hedged power price for the second quarter, it looks fairly similar to the first quarter and you expect that to be consistent for the next two quarters, is that correct?

David Cornhill, Chairman, President & Chief Executive Officer

Correct.

Fai Lee, RBC Capital Markets

Okay, great. Thanks. Now I was kind of curious about something on the release in terms of your explanations for the change in net revenue, and one of the favourable impacts for the quarter was lower line losses and higher ancillary service sales, and I'm just wondering if the higher ancillary service sales are sustainable going forward as well as, um, the line losses I'm a little curious because generally my impression is line losses are related to the spot price, which looks like it kind of increased over last quarter and I'm wondering where the favourable impact is coming from.

David Cornhill, Chairman, President & Chief Executive Officer

I will answer a little and then I'll pass it over to Jim. The ancillary services are a normal part of our business and we've been with our team quite effective in realizing value there. That should continue. There is some volatility in them, but they're a normal part of our business that we've

been actively involved in for the last three years, so I would say those are consistent.

With respect to the line loss, I'll pass that question over to Jim.

Jim Bracken, Senior Vice President Energy Services & Power

The line losses are a relatively small impact, um, it's just a couple hundred thousand dollars in terms of the impact year to date versus last year and it's a function, as you say, it is a function of the cost of power, but it's also a function of the volume of losses themselves, and that's determined by the AESO. So that is down a little bit from what we've seen in the past.

Fai Lee, RBC Capital Markets

Okay. So it's more a volume issue rather than the price issue.

Jim Bracken, Senior Vice President Energy Services & Power

That's right.

Fai Lee, RBC Capital Markets

And so the majority, I guess it looks like it's almost about \$1.5 million of favourable impact in net revenue quarter over quarter, and the majority of that is ancillary services and you expect that to continue at the current level then.

Jim Bracken, Senior Vice President Energy Services & Power

What's your \$1.5? That's quarter over quarter you're saying?

Fai Lee, RBC Capital Markets

Well year over year I guess. You've laid out all the differences between net revenues from you, so that leaves about \$1.5 that hasn't been explained, and you say that's attributable to lower line losses and ancillary, high ancillary service sales. That's the delta that's missing. I assume it's \$1.5.

Jim Bracken, Senior Vice President Energy Services & Power

Yeah, the ancillary service sales aren't the full amount of that \$1.5; there's a couple of other small items in there as well, things like the rate riders that we were incurring last year that we're not seeing this year. And a couple of other minor cost differences.

Fai Lee, RBC Capital Markets

Okay. I guess my question is that—that \$1.5, do you expect that to continue going forward for quarter to quarter?

David Cornhill, Chairman, President & Chief Executive Officer

I think we're pretty comfortable with this quarter's performance as not being unusual.

Fai Lee, RBC Capital Markets

Okay, great. And the other question I just had was with respect to G&A this quarter, do you see anything changing I guess going forward? Is this a representative of run rate in terms of administrative cost in the Corporate segment?

David Cornhill, Chairman, President & Chief Executive Officer

I will answer that. I won't ask (inaudible). I think this year is. I think we hopefully will see some benefits from CEO/CFO certification being done and reduction of G&A somewhat tempered by the hot employment market in the Alberta marketplace that would offset that. So we should expect some reductions, but we're seeing fairly significant increase in cost structure in Calgary, so that will offset it. So I think what you should see is a dampening of growth because of the success of CFO certification and reduction, but it will also have a continuing run rate, it just will have reduced a lot of the start-up costs of CEO/CFO certification. Unless we see a significant downturn in the Alberta market, I don't see a reduction in G&A costs.

Fai Lee, RBC Capital Markets

So when you're talking, um, you expect some reduction I guess through the CFO/CEO certification, are you talking about 2007?

David Cornhill, Chairman, President & Chief Executive Officer

2007 we expect that there'll be a reduction. There's still continuous maintenance and work, but hopefully that will be more internalized and elimination of some third-party contract costs going forward and some efficiencies that we expect to see as well as part of this process.

Fai Lee, RBC Capital Markets

Okay, great. Thanks.

Operator

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

Robert Catellier, Clarus Securities

Hi. Can you describe the nature of the outages at Bantry and Rainbow Lake and maybe discuss the offline time?

David Cornhill, Chairman, President & Chief Executive Officer

I'll let Marshal, if Marshal wants to speak to it.

Marshal Thompson, Senior Vice President, Gathering & Processing

I can talk a little bit about it. Bantry's second quarter was down in total about ten days, and the work that we performed there were really some retraining of the sales compressor, some modifications of our sales compressor, and re-tubing of a boiler there. So really periodic maintenance that was required to be done in the second quarter.

Robert Catellier, Clarus Securities

Okay. David, you've given your outlook for Field Gathering and Processing and your belief that the lower spot prices will have a temporary effect, um, can we take that to assume you've had discussions with the E&P community about their winter drilling plans and you're comfortable that you'll see year over year growth in that segment?

David Cornhill, Chairman, President & Chief Executive Officer

We expect that going forward, ah, better performance with our expansions that we had, um, the second half should be significantly strong than the first half on Field Gathering and Processing. So we're seeing a better second half for it than the first half.

Robert Catellier, Clarus Securities

What about 07?

David Cornhill, Chairman, President & Chief Executive Officer

At this point 07, ah, I think we expect the trend to continue as it has over the past. We haven't yet sat down to view all the plans and that usually happens in the September timeline with budgeting of the various E&P companies, so that has, those discussions have not yet happened.

Robert Catellier, Clarus Securities

And I guess then it's a little bit early to get a sense as to whether or not you might see additional investment opportunities, um, acquiring assets from E&P as they look to sort of juggle their cash flow versus their drilling plans?

David Cornhill, Chairman, President & Chief Executive Officer

We're seeing some on the smaller side, um, continued interest with plant opportunities, it's just recently Clear Hills.

Robert Catellier, Clarus Securities

Can you just quickly go over the situation at the Edmonton ethane recovery plant? You said 6 percent ethane recovery. Also, I think the numbers I heard were a 15 percent increase in the inlet volumes?

David Cornhill, Chairman, President & Chief Executive Officer

A 15 million a day increase and we're taking it from about 84 percent efficiency to 90 percent, and that should increase our ethane recovery there by about 10 percent in volumes produced over the annual basis.

Robert Catellier, Clarus Securities

And no impact on the C3 plus?

David Cornhill, Chairman, President & Chief Executive Officer

Just marginal. Because it was very efficient at the time.

Robert Catellier, Clarus Securities

With respect to your exposure to frac spreads, much of it is spoken for under various contracting arrangements; as those contracts come up for renewal, and I'm not sure if they do, ah, in the near term, what are your thoughts vis-à-vis just enjoying more of the market exposure? Or said another way, are you able to re-contract those at higher rates?

David Cornhill, Chairman, President & Chief Executive Officer

All our contracts are well into eight to ten years out, so they're long-term on the NGL side.

Robert Catellier, Clarus Securities

Great. Just one quick question on power. You know, assuming there's no other projects acquired, so no additional volumes in 07, are you comfortable you can grow the operating income from the power segment, given where your hedge book is currently?

David Cornhill, Chairman, President & Chief Executive Officer

Well on a hedged basis we feel pretty comfortable that they'll be at or above, ah...the question mark is how strong 2006 is on spot short-term basis, and in 2007 there's some variability, but what we will have done going into 2007 will guarantee us strong power position. There's some variability on spot price so we're not...I can't say that absolutely.

Robert Catellier, Clarus Securities

Right. So I guess we'd have to take the spot market aside and just on hedge book on a comparative basis it sounds like you're comfortable with growth in that segment.

David Cornhill, Chairman, President & Chief Executive Officer

Yeah.

Robert Catellier, Clarus Securities

And how much did the peaking plants contribute to operating income in the quarter?

David Cornhill, Chairman, President & Chief Executive Officer

Um, Jim, do you have...?

Jim Bracken, Senior Vice President Energy Services & Power

In the quarter? About a half million dollars.

Robert Catellier, Clarus Securities

Okay. And do you have the impact of reserves on the Energy Services number? I know it's probably not a big deal at this point but do you have that number handy?

Jim Bracken, Senior Vice President Energy Services & Power

I don't. It's down year over year, um, and we've also, as we disclosed, increased the amortization rate in that. So from operating income it's down slightly, but I don't have the exact number for the...

Debbie Stein, Vice-President Controller

I don't have it. Rob, why don't we follow up with that after the call?

Robert Catellier, Clarus Securities

Sure, that'd be great. And my final question, um, clearly your ongoing operating results and some of the capital you spent to grow the business in the year clearly support your increase in the distribution, but I'm wondering as, as you have a little bit more visibility for future periods, particular with securing the Bear Mountain proposal, do you still plan to maintain your current distribution policy or with some of the more medium-term visibility you have on growth, could you not accelerate distributions? What are your thoughts on the distribution policy?

David Cornhill, Chairman, President & Chief Executive Officer

We feel comfortable where we are and how we're operating. We think if we can retain some of that cash flow for good investments rather than diluting our unitholders with raising new equity, um, that's not a bad investment at this point, so we feel pretty comfortable where we are now. Our goal will be to grow distributions, but that's supported by sustainable cash flow and earnings and maintaining a very strong balance sheet going forward. So the more that you build like a long-term contract arrangements, the more the board will feel comfortable increasing distributions based on going forward. But we expect to have...we like being in what we think 70 percent of operating cash flow I think for the first half, um, we like being there. It gives us a lot of flexibility to make sure that our distribution is solid.

Robert Catellier, Clarus Securities

So that's operating cash flow after working capital.

David Cornhill, Chairman, President & Chief Executive Officer

That's before working capital changes.

Robert Catellier, Clarus Securities

Right, so the funds from operation number. Okay, thank you.

Operator

Thank you. Once again, please press star one on your telephone keypad for any questions or comments.

There are no further questions registered at this time. I would now like to turn the meeting back over to Ms. Stein.

Debbie Stein, Vice-President Controller

Before I wrap up, I have an answer to Rob's question. The increase in the DDA quarter over quarter was \$300,000 and lower in net revenue of about \$100,000, so net impact of about \$400. Okay?

Robert Catellier, Clarus Securities

Thank you.

Debbie Stein, Vice-President Controller

And with that, thank you very much for attending our call today and we hope to talk to you in the near future. Thank you.

Operator

The conference has now ended. Please disconnect your lines at this time. Thank you for your participation and have a great day.