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Debbie Stein

Vice President Controller

David Cornhill

Chairman, President and Chief Executive Officer

Richard Alexander

Vice President Finance and Chief Financial Officer

Jim Bracken

Guest Speaker

Marshal Thompson

Guest Speaker

CONFERENCE CALL PARTICIPANTS

Dominique Barker

Credit Suisse

Linda Ezergailis

TD Newcrest

Fai Lee

RBC Capital Markets

Robert Catellier

Clarus Securities

Matthew Akman

CIBC World Markets

Chris Bolton

BMO Capital Markets

PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good afternoon, ladies and gentlemen, and welcome to the AltaGas Income Trust 2006 Third 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

Thanks, Melissa. Good afternoon, everyone, and welcome to AltaGas' third quarter 2006 conference call.

David Cornhill, Chairman, President and Chief Executive Officer, will begin with a few remarks on the third quarter. He will also comment on our outlook for the remainder of the year and for 2007. Richard Alexander, Senior Vice President Finance and Chief Financial Officer, will follow with a discussion of our financial results. We'll then turn... we'll then have a question and answer session.

I would like to take this opportunity, however, to remind you that we will be hosting our first investor day in Toronto next Tuesday, November 14th, beginning at 1:00 PM. If you would like to attend and have not registered, please give Stephanie a call or send us an e-mail.

Before we begin, I 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 that 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.'

And I'll now turn the call over to David.

David Cornhill

Thank you, Debbie. And thank you for joining us this afternoon. Welcome to our third quarter conference call. Earlier today we announced another quarter of continued growth at AltaGas. Our third quarter net income was \$28.8 million, or 52 cents per unit, a 67% increase from third quarter of 2005. Year to date net income was \$87.2 million, or \$1.58 per unit, up 36 cents [should be percent] over the first nine months 2005.

Again this quarter the growth in net income was due to strong Power Generation operating performance, enhanced by higher power prices received on power sold, and lower transmission costs; solid Extraction and Transmission volume performance with high frac spreads; steady Field Gathering and Processing performance; and stronger performance of our Energy Services business. In addition, we've continued to see lower interest expense. These increases were partially offset by higher administration and compensation expense.

I now would like to touch briefly on a few key details in each of the segments. The Field Gathering and Processing segment is at a higher operating income this

quarter than last year, but did not improve as much as we had expected. I'd like to talk a little bit about the throughput declines in the quarter. In the shallower South and Central districts throughput... throughput was flat compared to the second quarter of this year. Volumes in the South district would have increased were it not for the down time due to the commissioning of our second sour... or second used sour gas plant, the Princess, which went into service in mid-September. Volumes declined by approximately 5% in the Northeast district, which is an area subject to winter only access. Volume in the Northeast district typically tends to decline over the spring and summer and ramp up again in late fall and winter when more wells are drilled and volumes are tied in. In the Northwest district volumes declined by 15%, mainly due to downstream third party pipeline maintenance which curtailed volume at Rainbow, Ante Creek, and Prairie River for about two weeks in September. This accounted... these three plants account for over 10% of our volume. Overall throughput declines were generally temporary, and we expect throughput to recover as winter drilling season commence and facilities return to normal operations. In fact, in October our throughput was up to approximately 560 million cubic feet a day.

Moving on to the Extraction and Transmission segment, results were up 35% over the third quarter of last year, and 20% year to date, due to steady production volumes of ethane and NGLs and higher frac spreads. Our expectation is that frac spreads will continue to be significantly higher than historic levels. For October frac spread again averaged over \$20 per barrel.

We had another very strong quarter in our Power Generation segment, mainly due to our... higher power prices received and lower transmission costs. This was despite the planned outage at Sundance 3 that lasted 37 days of the quarter. That outage ended on September [should be October] 21st. Our average price received on the sale of power, which includes both hedged and spot sales, was almost \$73 per megawatt-hour, up more than \$17 from the same quarter last year and \$12 from Q2 of this year. The increase was primarily due to the fact that the Sundance units were running near their maximum capacities in July, when spot price averaged \$128 per megawatt-hour as a result of some concurrent outages at coal plants and extremely hot weather. The PPA availability incentive payments, together with our hedges, successfully mitigated the financial impact of the Sundance turnaround.

Adding to the success of the power... in Power Generation, our peaking plant had a record quarter. Implied heat rates, which is the average price divided by

the average gas price, were higher. This allowed us to operate much more frequently in Q3 than we... we had in previous quarters. We expect this trend to continue through the rest of the year based on forward market heat rates.

For the first nine months of the year the average price received was just under \$65 per megawatt-hour, compared to \$51 per megawatt-hour for the same period of 2005. And an average Alberta Power Pool price of \$68 a megawatt-hour 2006, compared to \$55 per megawatt-hour in 2005. We continue to expect Power Generation results to be stronger than 2005 for the remainder of the year and into 2007, as the segment continues to benefit from strong power prices on hedged volume and higher spot prices. The market prices we are currently seeing for the rest of 2006 are in the mid-eighties, and for 2007 are in the high \$60 range. We continue to lock in prices for 2007. Our hedging program for 2007 is on track and is expected to give AltaGas a higher average hedge price in 2007 than 2006.

The Energy Services segment accounted for almost 5% of our operating income in the third quarter. Both the number of energy management service contracts and the average gas volumes marketed were up. We expect to deliver improving operating income in this segment in the fourth quarter, driven by the increase in customers as we expand into electrical supply management in Ontario. In addition, recent declines in gas prices have resulted in opportunity to arrange multi-year fixed price purchase and sales contracts.

In the quarter we signed an energy purchase arrangement with BC Hydro for the Bear Mountain Wind Park on August 28th. The project is currently going through regulatory environmental approval processes, and expected construction to begin in mid-2007, with commissioning in 2009. Enercon has committed in principle to supply and install the turbines on a turnkey basis, and to provide long-term operating and service agreements. In addition, Bear Mountain currently is working with Enercon to finalize a project construction schedule and other details of the turnkey supply and operating and services arrangements.

In addition to the Bear Mountain Wind Park, our growth plans continue on track. The Field Gathering and Processing segment has announced \$48 million in expansions and acquisitions year to date, exceeding our annual target of more than \$40 million in capital spending on internal growth in this segment. In the Extraction business, the ethane deep cut project of our Edmonton extraction plant is expected to be operational by December first, increasing the total annual ethane

production by 5% or 700 barrels per day. This project for incremental ethane production is very competitive compared to other recently announced projects.

As you may be aware, TransAlta has planned a 50 megawatt expansion at Sundance 4 plant to be completed in late 2007. AltaGas is pleased to have TransAlta undertake this expansion as it will provide us with a modest increase in our revenues. This expansion will add about three megawatts of power to the AltaGas power portfolio at no additional cost.

Two thousand six is now expected to be much stronger than anticipated at the beginning of the year. We expect a record year for net income. We have been setting the stage for continued growth in 2007, and expect 2007 to be another strong year with growth in operations. We expect the Power segment to continue to do well, with hedge prices slightly higher in 2007 than 2006; the Extraction and Transmission business seeing volume growth in 2007, with the expansions planned and in hand; we expect improved performance in Field Gathering and Processing, and the potential to make attractive investments. Finally, we expect continued performance improvement in our Energy Services business.

Factors... other factors that could also impact 2007 performance are the 2007 actual power price for our spot sales and frac spreads as well as overall administration costs. All in all, 2007 has the potential to be a strong year.

Before I turn the call over to Rick, I want to talk... touch on a couple of things. On October 31st, 2006 the Government of Canada announced a reversal of a long-held public position not to directly tax income trusts. We were very disappointed with the reversal of the government's policy and the significant disruption to the capital markets caused by this action. AltaGas has always operated with the discipline of a corporation by focusing on net income, return on equity, and creation of long-term unitholder value. Our business is strong, and we will continue to execute our growth strategy of creating long-term unitholder value. We will continue to evaluate the proposed tax changes and work to minimize the impact to our investors.

In closing, I'd like to thank John Breen, who has recently left our board of directors. He has recently joined the CPP Investment Board and was precluded from holding positions on public company boards. I'd like now to turn over the call to Rick to discuss the financial results in more detail.

Richard Alexander

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

As David mentioned, our third quarter net income was \$28.8 million, or 52 cents per unit. This is up from net income of \$17.2 million reported in the third quarter last year, or 32 cents. The weighted average number of units outstanding increased by \$1.5 million... 1.5 million units in the quarter to 55.7 million units, mainly due to our DRIP. For the first nine months of 2006 net income climbed 36% to \$87.2 million from \$63.9 million in the first nine months of 2005. On a per-unit basis, the numbers were \$1.58 compared to \$1.19 in 2005.

The year-to-date net income for 2005 included \$7.5 million from our Taylor investment and the contribution from our gas distribution segment, while the 2006 results included a \$6.6 million future tax benefit. Adjusting both years for these items, our year-to-date net income rose by 43% compared to 2005. We are quite pleased with these results, especially when you consider that in the first nine months of 2005 the Natural Gas Distribution segment added approximately \$1.3 million to net income while the 2006 year-to-date numbers include a much smaller contribution of \$400,000 from our investment in AltaGas Utility Group Inc.

Before I discuss operating income in our segments, I wanted to clarify a corporate allocation change that we made this quarter. In order to better reflect business segments' performance, we changed the allocation of some of our operating administrative expenses related to long-term incentives. This change impacted mainly the FG&P segment and the Energy Services segment, where \$1.9 million and \$900,000 of costs related to Q1 and Q2 were charged to the Corporate segment. Corporate segment costs increased by \$3 million. We did not reverse these costs for 2005.

Operating income in the Field Gathering and Processing segment was \$7.4 million in the quarter compared to 5.2 million in the third quarter of 2005. Adjusted for the reversal of Q1 and Q2 corporate costs, operating income declined slightly from the same quarter last year to 5.5 million from \$5.8 million. Average throughput was 537 million cubic feet per day, down 17 million cubic feet per day from levels in the third quarter of 2005.

As David has already discussed, average utilization was down to 53% from 60% in the third quarter of 2005. This

decline in utilization was due to a few factors. One: We increased capacity by 19 million cubic feet in the quarter with the Clear Hills acquisition and a 9 million cubic feet expansion at the Prairie River plant near quarter end with minimal corresponding volume. This reduced utilization by two percentage points. The Clear Hills plant is located in northwest Alberta in an area that is expected to see very active drilling. The plant is underpinned with take or pay contracts containing area of mutual interest provisions which dedicate future reserves in this area to the plant. And like all of our new contracts, it has flow-through operating costs. In the first week of November this plant was running at over 80%.

Two: The new and expanded facility that we've added this year continued to operate at less than full rates, reducing utilization by an additional two percentage points. Other facility maintenance completed during the quarter contributed to a one percentage point reduction in utilization, and the remaining two percentage point decrease related to the issue in the Northwest area that David already discussed.

In addition to the negative impact of lower throughput on revenues in the quarter, FG&P operating income in the quarter was reduced by approximately \$250,000 due to costs related to process improvements at Bantry, and positively impacted by half a million dollars of take or pay. In the first nine months of the year Field Gathering and Processing operating income was \$18.4 million, compared to 16.5 million in the same period in 2005. The increase was due to increased earnings from new and expanded facilities, approximately \$1.6 million from take or pay contractual provisions, and corporate costs previously charged to the segment. These increases were offset by planned and unplanned down time at our Bantry facility; upstream disruptions at the Rainbow Lake plant during the first half of the year; and the reduced throughput in Q3. Adjusted for the reversal of first quarter and second quarter corporate costs, year-to-date operating income in FG&P was flat.

Contrary to what we expected three months ago, well ties did not increase as much as we had anticipated. They were down to 70 from 96 in the third quarter of 2005, and to 265 year to date, down from 320 in 2005. We expect that tie-ins will begin to increase with the beginning of winter drilling activity, and that the lower gas prices we have been seeing will firm up as we enter the winter seasons. Forward market pricing is currently between seven and eight dollars per gigajoule. While lower gas prices may impact drilling in the short term, the lower prices are also an opportunity for AltaGas to acquire more assets as producers begin to monetize their assets and focus on drilling.

Moving to the Extraction and Transmission segment, results were up 35% over last year's third quarter, and up 20% year to date, to \$10.4 million and \$28.1 million respectively. The increases were primarily due to higher frac spreads. Frac spreads were over \$25 per barrel this quarter, and were \$20 per barrel in the first nine months of 2006, compared to \$11 and \$10 per barrel in the same periods of 2005. The 6% of extraction volumes exposed to frac spread contributed approximately \$3.3 million in net revenue in the quarter, three times the net revenue contributed in the third quarter of 2005. Year to date these volumes contributed double the amount of net revenue compared to 2005 at \$7.3 million.

I should note again this quarter that, as a result of the contractual arrangements in place, the lower transmission volumes we saw in both periods had minimal impact on our financial results.

Moving on, for the Power Generation segment, operating income almost doubled to \$24.1 million from \$12.7 in the third quarter of 2005. In addition to the higher power prices received, transmission costs for Sundance dropped by \$6.4 million in the quarter compared to Q3 2005 due to the changes in the transmission tariff methodology that went into place on January first this year, as well as lower transmission charges while the Sundance facility was on turnaround. Note that the Genesee contract reported net revenue of \$3.5 million in the third quarter of 2005. Year to date operating income of \$65.4 million in the Power Generation segment was twice as high as in the first nine months of 2005. Again, these increases were due to higher power prices received and lower transmission costs.

Energy Services operating income was \$1.6 million in the quarter, compared to \$1.3 million in the third quarter of 2005. This was mainly due to a \$900,000 reduction in operating and administrative expenses related to the corporate costs previously charged to the segment and to increased activity in the energy management business. For the first nine months of the year Energy Services operating income was \$2.5 million, compared to \$3.8 million in the same period in 2005.

In the third quarter of 2005 the Natural Gas Distribution segment contributed a net loss of approximately \$1 million. This loss was due to the seasonal nature of distribution business. With the spin-out of the gas distribution segment in November of last year, we now hold a 27% share of AltaGas Utility Group, and therefore included a loss of approximately \$200,000 in our Corporate segment this quarter.

As I mentioned earlier, the Natural Gas Distribution segment contributed approximately \$1.3 million to net income in the first nine months of 2005, compared to the \$400,000 of revenue from Utility Group included in the Corporate segment for the first nine months of this year. In the third quarter the Corporate segment had an operating loss of \$9.8 million, compared to \$3.5 million in the same period in 2005. The increased costs of the segment was due to the \$3 million adjustment related to corporate costs no longer charged to the operating segments and to higher general and administrative expenses, primarily as a result of general cost escalations, the growth in the business, and half a million dollars in costs incurred to meet new certification requirements for reporting issuers from the Canadian securities administrators. Year to date the Corporate segment had an operating loss of \$19.8 [million], compared to an operating loss of \$2.4 million in the first nine months of 2005.

One-time items related to our Taylor investment added \$8.6 million in operating income in the first nine months of 2005. In addition, the costs to meet certification requirements have totalled \$1.7 million year to date in 2006, compared to approximately half a million dollars in the first nine months of 2005. In 2005 \$2.2 million of corporate costs were reported in the operating segments rather than in the Corporate segment. The remainder of the difference year over year was due to increased costs for the growth of the business.

Moving on to discuss some consolidated numbers, the reduction in amortization costs in the quarter and the first nine months of the year due to the distribution business spin-out was partially offset by the growth in Field Gathering and Processing capital investment; the addition of IQ2; increased depletion expense for oil and gas properties; and by amortization related to the acquisition of energy services contracts. Our third quarter interest expense decreased by 37% to \$3.2 million compared to the third quarter of 2005. This was due to lower average debt balances as a result of using the proceeds of the spin-out of the Distribution business to pay down debt at the end of 2005; to higher funds from operations; and to a lower average borrowing rate of 4.8%, which was 90 basis points lower than in the third quarter of 2005. Year to date interest expense was down 35% to just under \$10 million.

Income taxes for the quarter were up \$1.1 million to \$1.7 million in the quarter as a result of higher net income in the third quarter of this year. Year to date we had a tax recovery of \$2.5 million compared to income tax of \$100,000 in the third quarter of 2005. The federal and Alberta government income tax rate reductions that took

place during the second quarter of this year resulted in a non-recurring reduction in tax of \$6.6 million in that quarter. Income taxes for the first nine months of 2005 also included approximately \$800,000 of expense related to the gas distribution segment and a lower effective tax rate for the Taylor capital gain reported in the first quarter of 2005.

In addition to David's comments regarding the government's intention to tax income trusts, I would like to add that we continue to evaluate our options for minimizing the impact on our earnings and cash flow. To the extent that we can use our UCC pool, which today is in excess of \$600 million, to shelter income and maximize unitholder value, we will.

Moving on to our balance sheet, debt levels on September 30, 2006 were \$277 million, \$8 million higher than they were at the end of 2005. Our total debt-to-cap ratio was 34.9%, down from 36% at year end. Our balance sheet remains strong, positioning us to capitalize on growth opportunities when they arise. Given the recent federal government tax initiatives related to trusts, I should note that DBRS has put the stability ratings and credit ratings for all income trusts on review. We are confident that there will ultimately be no change to the AltaGas rating. Our credit metrics and business fundamentals continue to be strong after accounting for the recently proposed tax changes to trusts.

In regards to cash flow, funds from operation for the quarter were up 38% to almost \$43 million, and increased 29% in the first nine months of the year to \$120 million. The 2005 funds from operation included funds from the distribution business but not the \$7.9 million after-tax proceeds of the Taylor disposition, which were reported as an investing activity in the first quarter of 2005. Third quarter 2006 distributions declared were 50.5 cents per unit, or \$28 million. This resulted in a pay-out ratio of 65% of funds from operation, compared to 82% in the third quarter of 2005. The year-to-date 2006 pay-out ratio was down to 68% from 80% of funds from operation in 2005. Finally, net investment capital in the quarter totalled \$25 million, up from \$18 million in the third quarter of 2005. Year to date we have invested \$58 million, up \$21 million from 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 nine months 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

Thanks, 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. Melissa, I'll now turn the call over back to you.

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 speaker phone, please lift the handset and then press star one. If at any time you wish to cancel your question, please press the pound sign. Please press star one at this time if you have a question.

The first question is from Dominique Barker from Credit Suisse. Please go ahead.

Dominique Barker, Credit Suisse

Good afternoon. My first question is with respect to financing future projects. You've got Bear Mountain \$150 million of capex expected in '07. To what extent can you use project financing for that in particular. And to the extent that you can't, how do you expect to finance that, given that the likelihood is the income trust equity market is potentially turned off for the time being?

David Cornhill

I'll -- it's David. We do have the option to finance a large portion of Bear Mountain project financing if we choose to do that. It makes sense from a cost perspective. With other... with our current debt capacity and our DRIP program, we see that we have sufficient financial powder to fund that. We've not finalized on a percentage that we will be taking of that, but we think we have capability to finance that quite easily.

Dominique Barker, Credit Suisse

And... and Rick made some comments with respect to... with the price, the commodity prices coming down, that it might give the opportunity to AltaGas to make acquisitions. Would those only be contemplated from internally generated cash flows or, again, answering the question on how... you know, how to finance that... that future growth?

David Cornhill

At this point we see that internal cash flows in our current position in debt should be sufficient. However, our advice is that the markets are readily becoming available, and I think with our strong track record we could attract equity for good investments.

Dominique Barker, Credit Suisse

OK. And just in general, your profitability has... continues to be very good. You talked about some of the operating margins at the division level. And just at the overall corporate level, you know, 35% EBIT margin versus 32% last quarter, 36% Q1. Is that sustainable, or do you attribute some of that to, I... I would say, you know, good power prices and good frac spreads that might not be repeatable into the long term? Can you just comment on profitability of the corporation going forward?

David Cornhill

I think those profit margins will be hard to maintain over the long term. I think we've got... we've got solid base of business that will generate very attractive profit margins, but some of it is the current power assets and low costs and higher prices. Clearly we're seeing in '07 that our hedge prices are stronger going into '07 than we were in... going into '06. So it's harder to project farther out, but we see... we still see strong profit margins going forward.

Dominique Barker, Credit Suisse

OK. So it sounds like '07 could continue to have good profit margins, but it's hard to have visibility say in '08 forward.

David Cornhill

Currently the pricing is still attractive, if you're looking for a curve, but the liquidity is not sufficient.

Dominique Barker, Credit Suisse

OK. And just... you mentioned the UCC pools of 600 million. Is there... is there like an average CCA rate, just to give a ballpark of the amount of UCC you can... you can use per year?

Richard Alexander

We have... we don't... we don't want to give out too much detail at this point on our pools, but about two-thirds of those pools are in Class 41, which is a 25% write-off.

Dominique Barker, Credit Suisse

Super. OK. Thank you very much.

Operator

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

Linda Ezergailis, TD Newcrest

Great. Thank you. Just a more pedestrian question, I guess, around your maintenance capital. You're running a little bit lighter than I've expected year to date. Are we going to see some more higher level of maintenance activity in Q4, or should I be trimming run rate of maintenance capital expectations going forward?

David Cornhill

I just got the nod from Marshal, and he said that you shouldn't see more in Q4, that maybe you should trim.

Linda Ezergailis, TD Newcrest

So in Q4 similar to Q3?

Marshal Thompson

I think that directionally would be right. If you recall, a lot of our maintenance we expense as part of our operations. So we don't anticipate a great deal of maintenance capital for the remainder of the year.

Linda Ezergailis, TD Newcrest

OK. So you're expensing more. I guess the guidance used to be maybe eight to ten million of maintenance capital going forward '07 and beyond. Should we trim that down to... let's call it... seven... six, seven million maybe?

David Cornhill

I would suggest we also, when we had the sale of the natural gas distribution, had higher maintenance. So I think we were being maybe a little conservative, not knowing exactly where that could come out when we spun out the Natural Gas Distribution business.

Linda Ezergailis, TD Newcrest

So going forward, what would you recommend as a run rate?

David Cornhill

Five, six million dollars seems like a...

Linda Ezergailis, TD Newcrest

Five, six million dollars. OK. And administrative capital, still looking at two to four million a year?

David Cornhill

Yes.

Linda Ezergailis, TD Newcrest

OK. Moving on to Bear Mountain and the service levels that you are negotiating with your wind turbine provider, we're seeing shortages of... of parts in the value chain. What sort of availability guarantees are they giving you,

and how does that compare with your obligations to deliver power to BC Hydro?

David Cornhill

Jim.

Jim Bracken

If we... we have a Memorandum of Agreement signed with Enercon. Enercon is a leading German turbine supplier, and they have committed the turbines to us sufficient for the project.

Linda Ezergailis, TD Newcrest

What about repair parts? What sort of probability or availability guarantees are they giving out for the continued servicing?

Jim Bracken

As part of the Memorandum of Agreement, they've also committed to a long-term service and maintenance contract that includes any of the parts and supplies that they would need to maintain the operating capacity of the turbines.

Linda Ezergailis, TD Newcrest

My understanding is some of the other power trusts give service level agreements? Like how responsive... I mean, can they replace the part within six months or six weeks or six days, or... or how fast is that and...?

Jim Bracken

There's some of those details that we are still finalizing in the agreement.

David Cornhill

And one point to point out, that these are gearless turbines, so there's not the gear box issues.

Linda Ezergailis, TD Newcrest

They're gearless turbines. OK. Now, maybe Debbie can help me with this offline, or Stephanie, but is there a way of helping us with our allocation of corporate expenses for Q4 and for full fiscal year by letting us know what corporate charge the business segments in '05 that would not be charged going forward?

Richard Alexander

We do have that analysis, and you could get that from either Debbie or Stephanie offline if you like.

Linda Ezergailis, TD Newcrest

OK. That's great. Thank you.

Operator

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

Fai Lee, RBC Capital Markets

Hi. My question's been answered. Thanks.

Operator

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

Robert Catellier, Clarus Securities

Yes, I have a couple of questions about the power segment. I'd like to have a little bit more colour on the contribution that was made from the peaking plants during the quarter, also from the incentive payment. And I'd like to know how the basis risk impacted the net revenue and operating income in the quarter. So that's the difference between the rolling average purchase price and the spot price. How did that impact your financial results?

David Cornhill

Jim?

Jim Bracken

Well, I'll start with the peaking plants. We do have, as you know, 25 megawatts of gas-fired peaking plants. And in the quarter, considering the month of July we were running them pretty hard because we saw... we saw favourable prices and heat rates. That is the way we operate those. We sell them in ancillary services as well as in response to the favourable power prices. So they did contribute significantly, probably to the tune of... of a couple of million dollars year to date.

Robert Catellier, Clarus Securities

That's net revenue or operating income?

Jim Bracken

Operating income.

Robert Catellier, Clarus Securities

And the... how were you impacted by the difference between the rolling average purchase price and the spot price?

Jim Bracken

We were not negatively impacted by that, in large part because that RAPP mechanism, the rolling average purchase price mechanism, over the course of a long turn-around like that does tend to give us fairly good coverage. During that period of time prices did go up, but the rolling average purchase price also went up, particularly towards the latter part of that period of time. We also anticipated it and were able to cover some of that price exposure by buying power in the market. So we ended up coming out of that fairly strong.

Robert Catellier, Clarus Securities

So it actually made a positive contribution (inaudible) what I'm trying to clarify the actual dollar amount.

Jim Bracken

Well, I...it's hard to say specifically because there were high prices at the time. But...

Richard Alexander

I think that number was about... just over a million dollars.

Robert Catellier, Clarus Securities

OK. And the increase in third quarter natural gas liquids and methane production, was that due to increasing volumes or higher recoveries?

Richard Alexander

It was... it was mainly due to increased volume... increased recovery. Increased volumes, not recoveries.

Robert Catellier, Clarus Securities

OK. With respect to the Field Gathering and Processing segment, it sounds like you're still having some difficulties with Bantry. Can you provide a little bit more of a description as to what's going on there?

Marshal Thompson

Sure. The third quarter there's a couple of things. We had an upstream producer have about a six-day turn-around on his facilities. And we took the... we took the advantage to take part of our system down during that time and do some work on our blower, which is really a compressor, a low-pressure compressor that fits into our amine unit. So we were able to do some amine upgrades, change out the catalyst, and that cost us about a quarter of a million dollars, while the producer was... was down upstream.

Robert Catellier, Clarus Securities

So that... it was eliminated to activities that had no producer disruption?

Marshal Thompson

I'm sorry?

Robert Catellier, Clarus Securities

So your activities at Bantry had no producer disruption?

Marshal Thompson

Not... no. It was up... the producer upstream had planned it...

Robert Catellier, Clarus Securities

Right.

Marshal Thompson

...to go down anyway. So what we did was take advantage of the fact that they were going down and do some maintenance at that time rather than wait.

Robert Catellier, Clarus Securities

So is everything now squared away at Bantry and Rainbow Lake? There's no... no more operational difficulties there?

Marshal Thompson

No. We expect to continue to run. I...we do plan a significant turn-around in... at Rainbow Lake, but right now that's scheduled for the first half of 2007.

Robert Catellier, Clarus Securities

And just with respect to the change in the taxation of income trusts, can you confirm the... the level of un depreciated capital costs?

Richard Alexander

That was the roughly \$600 million I had mentioned earlier.

Robert Catellier, Clarus Securities

Right. Yeah, that's... that's what I thought. And given that there's been significant change to the value of the units on the publicly traded market, is there any need or plan to change incentive plans, or what other impact might we expect on SG&A levels?

David Cornhill

I don't... we've been looking at it. I don't expect significant changes. We've always focused on net income drivers and return on equity. That's what our short-term bonus is driven off on a corporate basis, and longer term we're still looking at unitholder growth and value as a midterm and longer term. We have seen some short-term disruption in our progress to increase unitholder value. But we continue to commit to just continue to grow and improve that.

Robert Catellier, Clarus Securities

David and Marshal, what are you hearing from the producer community with respect to drilling plans, especially with respect to juniors who may have been expecting to convert at some point and the current E&P trusts that are active in your area?

Marshal Thompson

Sorry. Activity level in terms of drilling?

Robert Catellier, Clarus Securities

Drilling, yes. In other words, has the seemingly reduced access to capital changed their drilling plans and/or made more facilities available to you?

Marshal Thompson

You know, I... I'd have to say I haven't heard anything. I think it's pretty early days, and everyone's trying to anticipate where they are. I can tell you, though, that in terms of conventional drilling generally, we're seeing continued strong licensing in our Central area and our South area. For example, the Central area, the third quarter they licensed 150 wells. Now, when they're going to drill those up, whether it's in the next three months or six months, we're not quite sure yet. But there's nothing to suggest yet that there's going to be any slowdown in terms of processing in our facilities.

Robert Catellier, Clarus Securities

And my last question is with all the uncertainty and, you know, sort of a cloudy outlook here and... with respect to access to capital for everyone, is it too early to set a 2007 growth capital spending budget?

David Cornhill

You know, we're looking at consistent 40 to \$50 million base business, but we've got a lot more capability. We're seeing interesting projects on the Extraction, Energy Services, as well as Transmission side for additional growth above that. So you know, we... we see our plan to just continue to execute our plan. We think there's good growth opportunities and, from the way we look at the business, not... not much has changed. The tax regime has, but how we value... we always treated equity as... as precious and valuable. And the tax change didn't really have an impact on our view.

Robert Catellier, Clarus Securities

OK. Great. Thanks.

Operator

Thank you. The next question is from Matthew Akman from CIBC World Markets. Please go ahead.

Matthew Akman, CIBC World Markets

Thanks. David, what is your, I guess, initial view of how the government might interpret a company like AltaGas buying a significant package of assets from a corporation at this point?

David Cornhill

There were a few paragraphs in the tax that could cause some questions. My general view is, if it's a typical taxable transaction, where you're buying assets, you're buying and your corporation is paying tax, and it's a taxable event, I would think that the government would look favourable to that. That's just a normal part of business. I think if you were looking at structuring something that was a significant deferral of tax or

something special, they've clearly kept, as one described, as a sledge hammer over your head to give them the right to prevent you from doing that. So normal business I would think, normal asset purchases that create taxable transactions, would... corporation... I can't see why they would find that offensive.

Matthew Akman, CIBC World Markets

Even though the assets may not attract ongoing income tax for the next four years?

David Cornhill

But they have just been revalued up to create a taxable event at the time. As well, the CCA draw down... so I don't see it as a significant risk kind of asset purchase.

Matthew Akman, CIBC World Markets

So you would go ahead and do something like that without getting an advance tax ruling, and... and just think that that was probably the treatment you'd get?

David Cornhill

Depends on the size. Depends on the risk level.

Matthew Akman, CIBC World Markets

OK. Thanks for the comments. I know it's kind of early days on that and difficult to determine.

Can I just move to Power for a minute? I... maybe these questions are for Jim on Power. You guys said looking at next year hedges in the high sixties. Is that correct?

Jim Bracken

Yes.

Matthew Akman, CIBC World Markets

And have you given out or can you say what portion of your output is hedged at those levels for next year?

Jim Bracken

Well, what we've typically said, Matt, is that at the outset, when we bought these assets, we would... we would hedge about two-thirds of them going into the year. And we've stuck with that strategy generally. So we're on target to do that again this year.

Matthew Akman, CIBC World Markets

OK. Thanks for that. Can you make a general comment on the Alberta power market and what your view is on some of the crazy high prices we've seen over the last few months and just generally your take on that situation?

Jim Bracken

Our take on it is consistent with what we've seen the... the ISO and the MSA and... and others write in public about it, and that is that there are some generation shortages and constraints over the next roughly four to five years. There aren't any immediate plans to build. There are some transmission constraints and the problems that will hold... hold up any potential builds. So... and demand is increasing. So we see it continuing to be a fairly robust market, so we're relatively bullish on price in Alberta for the next few years.

David Cornhill

One other... my view, not learned view, but I think the... also the volatility of wind generation has created a little more volatility in price by coming on and coming off quite quickly. And that just over short periods of time also creates a little more volatility.

Matthew Akman, CIBC World Markets

OK. Thanks very much.

Operator

Thank you. The next question is from Chris Bolton from BMO Capital Markets. Please go ahead.

Chris Bolton, BMO Capital Markets

I was wondering when the next turnaround at Sundance is scheduled for.

Jim Bracken

I don't think that's public. That's not something we're able to disclose.

Chris Bolton, BMO Capital Markets

OK. And then the 50 megawatts at TransAlta's adding at Sundance 4, are the terms similar to your existing PPA?

Jim Bracken

Well, it's... it's covered under the existing PPA in that it becomes what's referred to as excess energy. So we get the right to a certain percentage of the revenue stream from it as excess energy. So in effect, we get half of 12 and a half percent of the capacity. And I think as Rick and David mentioned earlier, it's the equivalent of us getting another two megawatts of capacity free at no capital cost.

Chris Bolton, BMO Capital Markets

OK. Those were my questions. Thank you.

Operator

Thank you. Once again, please press star one if you have any questions or comments.

The next question is from Fai Lee from RBC Capital Markets. Please go ahead.

Fai Lee, RBC Capital Markets

Thanks. Rick, maybe you can answer this question. Is there really anything preventing you from accessing your UCC pool today? I'm asking because your return on capital as a percent of your distribution is... hasn't been that high.

Richard Alexander

Well, you know, with the trust structure, that's a really complicated discussion, Fai, and I think at this point we

prefer to defer any discussion around that until we have a better understanding of where the new legislation's coming out and a chance to more fully understand it.

Fai Lee, RBC Capital Markets

Right. But historically, has there been anything preventing you from accessing those pools?

Richard Alexander

No. You can use the pools. There is some discretion around how quickly you draw them down.

Fai Lee, RBC Capital Markets

OK. And is there any reason why you haven't drawn them down slowly? Or have you been drawing them down to date?

Richard Alexander

I'd rather not comment on that because that's inside the trust structure.

Fai Lee, RBC Capital Markets

Alright. Thanks.

Operator

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

Debbie Stein

Thanks, Melissa. Thank you, everyone, for joining us today, and we do look forward to seeing you in Toronto next Tuesday. Thanks.

Operator

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