

## CORPORATE PARTICIPANTS

**Stephanie Labowka-Poulin**  
*Manager, External Relations*

**David Cornhill**  
*Chairman, President & Chief Executive Officer*

**Richard Alexander**  
*Executive Vice President, Chief Operating Officer & Chief Financial Officer*

**David Wright**  
*Executive Vice President*

**Deborah Stein**  
*Vice President Finance*

## CONFERENCE CALL PARTICIPANTS

**Nima Billou**  
*Bloom Investment Counsel*

**Robert Catellier**  
*Clarus Securities*

**Winfried Fruehauf**  
*W. Fruehauf Consulting Ltd.*

**Matthew Akman**  
*CIBC World Markets*

## PRESENTATION

### Operator

Good afternoon ladies and gentlemen. Welcome to the AltaGas Income Trust 2007 Third Quarter Conference Call and Webcast. I would now like to turn the meeting over to Ms. Stephanie Labowka-Poulin, Manager External Relations. Please go ahead, Ms. Labowka-Poulin.

---

### Stephanie Labowka-Poulin, Manager, External Relations

Thank you, Jennifer. Good afternoon everyone and welcome to AltaGas' third quarter conference call.

David Cornhill, Chairman, President, and Chief Executive Officer, will begin with a few remarks on results for the quarter and AltaGas' outlook for the remainder of 2007

and for 2008. Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer, will then discuss our operating and financial results. We'll conclude with a question and answer session.

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 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."

I will now turn the call over to David Cornhill.

---

### David Cornhill, Chairman, President & Chief Executive Officer

Thank you, Stephanie. Good afternoon and welcome to our third quarter conference call.

We are pleased to announce that AltaGas had a strong third quarter, with net income of \$31.4 million or \$0.54 per unit. This is a new record for us: the first time quarterly net income has exceeded \$30 million.

Net income was up from \$28.8 million or \$0.52 per unit in the third quarter of 2006. For the first nine months of this year, net income was \$77 million or \$1.35 per unit compared to \$87.2 million or \$1.58 per unit for the first nine months of 2006. Adjusting for non-cash tax impacts in both years, net income for 2007 was \$83 million, up from \$80.6 million for the first nine months of 2006. On a per-unit basis the numbers are \$1.45 in the first nine months of 2007 and \$1.46 for the first nine months of 2006. Overall we are on track for another successful year.

I would like to talk about some factors that will impact the business. The Alberta government's new royalty framework, which is to take effect in January 2009, has been top of mind for the oil patch lately. The royalty review report and announcement of a new framework has generated a large degree of uncertainty for producers. This uncertainty, in addition to low natural gas prices and the continued fallout from the trust tax announcement and persistent cost escalation, has had an unfavourable effect on the natural gas business.

It's still early stages, but from what we know so far we believe the impact on AltaGas will be neutral to slightly positive in the long-term. We deal with more than 250 producers, so producer-specific risk is minimized. The new royalty regime appears to have a low royalty rate on 90 percent of conventional natural gas wells at \$6 gas. It favours low production wells and provides incentives to those producing coal bed methane and tight gas. While our 73 facilities are located throughout western Canadian sedimentary basin and we produce such gas from all types of wells, more than three-quarters of the wells tied into our systems produce less than 200 mcf per day.

Drilling activity is expected to decrease as producers integrate revised royalty rates into their capital spending programs. Some parties have also already declared the winter drilling season to be dead, but the decision on winter drilling programs are being made now. At this point we do not know the magnitude of the impact this winter nor whether the impact will be uniform throughout the province of Alberta or area specific. We are seeing some projects moving ahead in the northern areas.

We do have a stated objective to increase our participation in coal bed methane and in that respect the recent royalty announcements are positive and may benefit us in the long-term. On that note, we're happy to announce that the new Acme CBM plant is on time and on budget and we expect it to be in service at the end of this month. Ember is in the process of completing its drilling program for the year and expects to have approximately 30 wells for us to tie-in throughout November. Additional volumes are expected to come on-line in January.

Forward natural gas prices for 2007 and 2008 are currently in the low \$6 to \$7 range. With the continued high level of oil prices, frac spreads continue to be at historically high levels and are expected to continue above \$25 per barrel for the remainder of the year and into 2008.

The forward power curve is also strong, although it has come down somewhat recently. Power is trading around \$80 per megawatt for the remainder of 2007 and the mid-\$70 range for 2008 and 2009. This continues to provide for growth in our Power Generation segment.

As I said earlier today and at our investor day conference in late September, AltaGas is on track for another year of strong earnings. We anticipate that 2007 operating results will meet or exceed 2006 operating results. We expect 2007 results in the Field Gathering and Processing segment to be slightly lower than 2006. The

Acme volumes will partially offset the impact of lower throughput for the remainder of 2007.

In the third quarter, we amended three of four major contracts at one of our largest processing facilities to flow-through operating cost for the majority of the volumes. This is anticipated to substantially increase operating income at this facility. We continue to execute our strategy of converting contracts to flowthrough operating costs, raising processing fees, and managing operating costs. Our goal remains to obtain close to 50 percent flow-through operating costs by the end of the year. We are doing so while continuing to provide high reliability to our producer customers.

Given the high frac spread, our incremental production capacity and lower anticipated deferred revenue in the transmission business. The Extraction and Transmission results for the fourth quarter are expected to be higher than the same quarter last year. This should lead to higher Extraction and Transmission results in 2007 than 2006. Power Generation results are expected to be up in 2007, mainly as a result of higher hedge price and lower cost in the segment.

The Power segment should continue to do well in 2008. We have hedged our production from Sundance for the next year and our hedge price is significantly above this year's \$66 per megawatt hour, in line with current market prices. And we have 14 megawatts of new gas fired capacity coming on line at the end, by the end of the second quarter of 2008. We also expect to start construction on Bear Mountain Wind project later this month and expect to hold approximately 45 percent of this project.

We anticipate that the Extraction and Transmission business will continue to benefit from strong frac spreads in 2008 and will see some growth due to full-year operation of deep ethane enhancement project and the Cold Lake transmission expansion.

We expect improved performance in Field Gathering and Processing as a result of recontracting higher rates and higher operating flowthrough provisions, even if throughput remains flat. We also expect to see the continued potential to make attractive investments in infrastructure assets.

All in all, 2008 has the potential for another strong year.

Rick will now discuss the details of our operations and financial results.

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Thank you David and good afternoon everyone. I will now highlight the key operating and financial results discussed in our third quarter news release, which you can find on our website.

As David mentioned, net income in the third quarter was a record \$31.4 million or \$0.54 per unit. This was up from \$28.8 million or \$0.52 per unit in the same period of 2006. For the nine months ended September 30, 2007, net income was \$77 million or \$1.35 per unit. Adjusted for the net non-cash charges in 2007 and 2006, net income for the period was \$83 million or \$1.45 per unit, up from \$80.6 million and in line with the \$1.46 per unit in the first nine months of 2006.

During the third quarter AltaGas recalculated the estimate for the SIFT tax reported in the second quarter. The recalculation resulted in a decrease in SIFT tax from \$14.5 million to \$6.5 million. The change resulted in an increase in net income for the second quarter to \$21.2 million or \$0.37 per unit from \$13.1 million or \$0.23 per unit.

Net income for the first half of 2006 was increased to \$45.6 million from \$37.6 million. On a per-unit basis net income increased to \$0.80 from the \$0.66 previously reported. The results for the nine months ended September 30, 2007 reflect the adjustments made to the second quarter results.

The diversification of our gas and power businesses was one of the factors that made the third quarter a success. As David indicated, strength in the Power business and continued strong frac spreads helped offset weakness in our Field Gathering and Processing and Energy Services businesses.

The Field Gathering and Processing segment continued to experience lower throughput and utilization as a result of the slowdown in producer activity and natural declines. Well tie-ins in the third quarter were down 37 percent to 51 from 91 in the third quarter of 2006. Year to date, well tie-ins were 229, a 14 percent decline from 265 tie-ins in the first nine months of 2006.

Average throughput in the quarter was 510 million cubic feet per day, down 5 percent from levels in the third quarter of 2006. There were a few scheduled turnarounds and while the financial impact was minimal they resulted in approximately 5 million cubic feet per day of lower average throughput in the quarter. The new Clear Hills facility's throughput of 8 million cubic feet per

day helped offset the 18 million cubic feet per day decline in the North District and in the South District throughput declined by 17 million cubic feet per day.

Operating income in Field Gathering and Processing was \$3.1 million in the quarter, down from \$7.4 million in the same period in 2006. When this is adjusted for the \$1.9 million reversal of corporate costs that were recorded in Q3-06, operating income was down \$2.4 million quarter over quarter.

Lower throughput led to a \$1.9 million decline in operating income and operating income was also negatively affected by a one-time \$500,000 take-or-pay payment recognized in 2006, higher amortization from our expanded facilities and \$400,000 in additional operating and administrative costs at non-flowthrough facilities. These decreases were partially offset by \$900,000 as a result of recontracting at higher rates, routine equalization adjustments, and the new Clear Hills facility. Much of this mitigating impact was the direct result of AltaGas' strategy to manage the risk of volume declines.

Year to date, Field Gathering and Processing operating income was \$13.7 million, down from \$18.4 million in the first nine months of 2006.

Moving to the Extraction and Transmission segment, operating income was \$9.9 million in the third quarter, down slightly from \$10.4 million last year. Extraction volumes were approximately 3,000 barrels per day lower in the quarter, mainly as a result of lower demand downstream of the Edmonton extraction plant and a ten-day turnaround at that plant. The impact of the lower volumes was partially offset by higher frac spread exposed volumes from our increased ownership at one of the Empress facilities.

In the Transmission business we continued to see lower volumes flowing than contracted on the Suffield system, resulting in higher revenue deferral this year when compared to last. This was offset by the contribution from the expanded Cold Lake transmission system. We now anticipate that the total revenue deferral for 2007 will be similar to last year's \$800,000 deferral. Please remember that the deferral has no impact on cash flow.

Frac spreads remain strong in the third quarter at \$25 per barrel, the same as in Q3-06. In the third quarter of 2007 the 10 percent of volumes exposed to frac spread added \$4 million to net revenue. This was up from the \$3.3 million net revenue brought in by 7 percent of volumes exposed to frac spread in the third quarter of 2006. In August we hedged about one-third of our volumes

exposed to frac spread at approximately \$23 for the remainder of the year. We also recently hedged approximately 40 percent of our volumes exposed to frac spreads for 2008. This locks in the margin on those volumes at a price similar to what we expect to see for 2007.

Operating income in the Extraction and Transmission segment for the first nine months of 2007 was \$27.2 million, down 3 percent from the same period in 2006. Year-to-date frac spreads were \$18 per barrel, which is historically strong but below the \$20.50 per barrel we saw in the first nine months of 2006.

The Power Generation segment continued to produce strong results in the third quarter. Our average price received on the sale of power, which includes hedged and spot sales from both Sundance and the gas-fired peaking plants, was almost \$77 per megawatt hour. This was up more than \$4 from the same quarter last year. The [average] Alberta power pool price was \$92 per megawatt hour, down almost \$3 from the third quarter of 2006.

At \$31.5 million, third quarter 2007 operating income in the Power Generation segment was 31 percent higher than in the third quarter of 2006. This was despite the lower average spot price seen in the quarter. Higher hedge prices, lower PPA costs mainly due to the favourable 30-day rolling average power price received during the Sundance scheduled outage, and lower transmission costs were the main drivers of the \$7.4 million increase. The increases were somewhat offset by lower average spot prices received on unhedged volumes and the \$700,000 of cost incurred to comply with Alberta's new Specified Gas Emitters Regulation. In 2007 we expect the Specified Gas Emitters Regulation cost to total \$2.1 million, which is slightly less than half the annual \$5 million we would expect for a full year. This is due to the 60-day Sundance outage, which resulted in lower production in the quarter, and we only incur these costs when the generators are running.

Year-to-date operating income in the Power segment was up \$8.9 million from the first nine months of 2006 to \$74.3 million. This is despite the fact that \$4.1 million was contributed by the Genesee contract in the first quarter of 2006.

Moving on to the Energy Services segment, the third quarter saw an operating loss of \$200,000. This was down from operating income of \$1.6 million in the third quarter of 2006. While the segment is seeing growth in both the energy management and gas services businesses, the growth is being more than offset by the

same factors that have impacted the segment all year, and these include: higher gas costs to meet a natural gas supply contract that expires in 2009; stable commodity prices which impact customers' desire to sign up for energy management services; and non-recurring earnings in the energy management business in 2006. In addition, in Q3 there was a negative \$900,000 impact from the one-time reversal in corporate costs that took place in Q3 last year.

Year-to-date operating income in the Energy Services segment was \$2 million, down from \$2.5 million in the same period in 2006. This included \$1.5 million from the gain on the sale of the Cedar oil and gas assets.

Moving to our final segment, Corporate had an operating loss of \$6.8 million in the third quarter, lower than the \$9.8 million operating loss in the third quarter of 2006. The decreased loss was primarily a result of three things: \$3 million due to the extra charge in Q3 06 related to costs previously charged to the operating segments; a one-time \$1.5 million write-off of costs related to the deferral of Noel project--the total cost of the project was \$3.4 million and we expect to recover \$1.6 million; and a \$1.1 million of unrealized gains related to natural gas marketing contracts and unhedged interest rate swaps.

The year-to-date operating loss in the Corporate segment was \$21.1 million compared to \$19.8 million for the first nine months of 2006.

Now that I've discussed results in each of the segments, I'll touch on some of the consolidated numbers.

Income tax expense was \$3.2 million for the third quarter of 2007 compared to \$1.7 million for the same period in 2006. Year-to-date, income tax expense was \$11.7 million compared to an income tax recovery of \$2.5 million in the first nine months of 2006. \$12.6 million of the \$14.2 million variance was due to one-time non-cash items in both years.

Growth capital spent in the quarter was almost \$12 million and was mainly for the Sarnia airport pool storage project, the Acme gas processing plant, and the Bear Mountain Wind Park. The investment capital tables in our news release give you a detailed view of where we spent our capital in the quarter. Year to date we have invested almost \$25 million on growth compared to \$52 million in the first nine months of 2006.

Our business development group is pursuing several growth opportunities and we still expect to spend an additional \$37 million on Field Gathering and Processing assets before the end of the year. The majority of the

\$46 million of disposals year to date were from the disposition of non-core Cedar oil and gas production assets and our interest in the Ikhil Joint Venture. These assets were recorded at original cost.

I should also note that as a result of the special distribution of AltaGas Utility Group Inc. Shares valued at \$4.2 million in September, the Trust now owns 19.6 percent of Utility Group, down from 26.7 percent.

With respect to our balance sheet, total debt on September 30<sup>th</sup> was \$229 million, which is \$36 million lower than at the end of 2006. Our total debt-to-cap ratio was exactly 29 percent, down from 33.4 percent at year end and still well below our target of 40 to 45 percent.

In regards to cash flow, funds from operations for third quarter 2007 were up 10 percent to \$47.6 million. The change was mainly due to stronger operating results. For the first nine months of 2007 funds from operations increased to \$125 million from \$120 million in the same period in 2006.

Distributions declared in the third quarter were \$0.52 per unit or \$30 million. This resulted in a payout ratio of 63 percent, down slightly from 65 percent of funds from operation in the third quarter of last year. Year-to-date our payout ratio is 71 percent of funds from operation, at the lower end of our target payout ratio of 70 to 80 percent.

To conclude, I'll reiterate that our outlook for 2007 is to meet or exceed 2006 operating results and we see growth continuing for 2008. Our diversified gas and power business is strong. We continue to move forward with announced projects and to pursue additional growth opportunities. AltaGas' ability to grow is supported by our financial discipline and the flexibility of our balance sheet, positing us well for the future.

And with that I will now turn the call back to Stephanie.

---

**Stephanie Labowka-Poulin, Manager, External Relations**

Thank you, Rick.

That completes the formal part of our conference call this afternoon. David, Rick, along with David Wright, Executive Vice President, are now available to answer your questions. Jennifer, I'll now turn the call back to you for the 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 sign. Please press star one at this time if you have a question. There will be a brief pause while participants register for questions. Thank you for your patience.

Our first question comes from Nima Billou from Bloom Investment Counsel. Please go ahead, Mr. Billou.

---

**Nima Billou, Bloom Investment Counsel**

Thank you. I just had a quick question with respect to, first of all, power markets. Have you been able to hedge in or when are you going to hedge in prices for next year and do you see yourself being able to hedge at the mid-\$70 level that you had mentioned?

---

**David Cornhill, Chairman, President & Chief Executive Officer**

We've hedged substantially where we want to be in power and they are consistent with current prices and up considerably from the \$66 that we hedged this year past.

---

**Nima Billou, Bloom Investment Counsel**

So current prices meaning the \$80 mark?

---

**David Cornhill, Chairman, President & Chief Executive Officer**

Current prices for 08 in the mid-70s to \$80 mark.

---

**Nima Billou, Bloom Investment Counsel**

And that's two-thirds of your volume consistent every year, right?

**David Cornhill, Chairman, President & Chief Executive Officer**

That's our working target, yes.

**Nima Billou, Bloom Investment Counsel**

Okay. With respect to the Field Gathering and Processing side, was your earlier guidance for 07 that it was going to be flat towards 06 or did you always anticipate that it would come in under 06?

**David Cornhill, Chairman, President & Chief Executive Officer**

We thought it would be flat and we saw the third quarter somewhat weaker than anticipated.

**Nima Billou, Bloom Investment Counsel**

So because of deteriorating conditions with respect to volumes and the commodity environment it's...you're going to now see it come in under 06.

**David Cornhill, Chairman, President & Chief Executive Officer**

Yes. For Field Gathering and Processing, not for the total company.

**Nima Billou, Bloom Investment Counsel**

Yeah, yeah, for FG&P. And with respect to cost recovery or cost flowthrough, you had a target initially, I thought it was 50 percent within a couple years; how far along are you with respect to that target in terms of the percentage of contracts that have these flowthrough provisions?

**David Cornhill, Chairman, President & Chief Executive Officer**

Rick?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Well at the end of last year we were at close to 40

percent and we still are optimistic that we can be close to 50 percent by the end of this year.

**Nima Billou, Bloom Investment Counsel**

By the end of the year. Are you getting push-back from the producers at all or do they understand your need to be able to pass through these costs?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Both. I think they understand the need for us to make an acceptable rate of return but they're also pressured by cost and so there is some negotiation that goes with each of these discussions. So each one is unique and we try to approach it as a partnership. They need the plant, we need a return and we need their volume to get a return. So we try to work together to come up with a solution that works for both parties.

**Nima Billou, Bloom Investment Counsel**

Okay. And my final question for you. CapEx on an annual basis, for 07 you see it on a total company basis in the \$50 million range and the same for 08 or have you guys come out with 08 guidance yet?

**David Cornhill, Chairman, President & Chief Executive Officer**

We haven't come out with 08 guidance yet but for 07, yes.

**Nima Billou, Bloom Investment Counsel**

Roughly \$50 million on total company. Yeah?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Yes.

**Nima Billou, Bloom Investment Counsel**

Okay, perfect. Thanks very much.

**Operator**

Thank you. Our next question is from Mr. Robert Catellier from Clarus Securities. Please go ahead, Mr. Catellier.

---

**Robert Catellier, Clarus Securities**

Just on the Field Gathering and Processing, I wonder if your producer base has confirmed their plans for the winter of 07/08 and I'm specifically curious as to whether or not Ember has confirmed its near-term plan post the royalty review.

---

**David Cornhill, Chairman, President & Chief Executive Officer**

Yes, we're actually in the process at this time of tying in right now.

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

So with Ember, we are expecting them to tie-in those 30 wells before this year's out and the vast majority, if not all, in November. So we'll see production starting before November 30<sup>th</sup>.

---

**Robert Catellier, Clarus Securities**

Right, but in terms of their new drilling programs, the new well count going forward, is that, ah, have they made any changes or confirmed that?

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

They have confirmed their drilling plans for the winter and we'll see that recommence in January I believe.

---

**Robert Catellier, Clarus Securities**

Is that the same for generally throughout the producer base or is it too early to tell at this point?

**David Cornhill, Chairman, President & Chief Executive Officer**

We do have projects that we're working on, on winter only is where the big issue is, because you're given a window of two to three months to work on tying-in, so that's the critical part. Ember is actually an all-year drilling location so if they defer to after spring break up it's not a significant impact. So we are working on projects right now to tie-in additional wells this winter.

---

**Robert Catellier, Clarus Securities**

So the bottom line here is: do you think you can growth the Field Gathering and Processing in 2008 absent material new capital deployments?

---

**David Cornhill, Chairman, President & Chief Executive Officer**

We think that with flowthrough operating costs that we'll, and flat volumes, we see an improvement.

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

So yes, we think we can grow the profitability without volume growth. We're also going to be working hard to get volume growth but obviously a large part of that is dependent on what the producers do.

---

**Robert Catellier, Clarus Securities**

Can you quantify the impact of favourable 30-day rolling average purchase price from the Sundance outage had? You may have given that number, I just didn't hear it.

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

No, we haven't given that number, Mr. Catellier. But the way that worked was that the power prices were extremely high during July and continued in through August when we went into the outage and so those high prices continued to roll virtually right through the whole outage period. So it was a benefit but we've not disclosed that number.

**David Cornhill, Chairman, President & Chief Executive Officer**

It's just a timing difference. If we were up and running we would have received the spot prices when they were occurred. This was the deferral realizing the price over 30 days.

**Robert Catellier, Clarus Securities**

Yeah. And just on the frac spreads; did you say you were hedging 08 volumes?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Yes, we have hedged about 40 percent of our 08 volumes recently.

**Robert Catellier, Clarus Securities**

And that's the C3 plus—you may have given the price. Did I hear \$18?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

No, the price we gave, the guidance we gave on that was essentially around the prices we'll average for 2007.

**Robert Catellier, Clarus Securities**

Okay. And are you finding the outlook for the peaking plans has improved given the relative power pricing compared to gas prices? And have you changed your outlook there at all?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Well on the peaking plants it's really driven by where the heat rate is and that has been quite volatile lately with the power price coming off recently in October and into November and the gas price strengthening. So the heat rate has narrowed. So that has affected our ability to operate those plants.

**Robert Catellier, Clarus Securities**

Okay, that's all my questions.

**Operator**

Thank you. Our next question is from Winfried Fruehauf from W. Fruehauf Consulting Ltd. Please go ahead, Mr. Fruehauf.

**Winfried Fruehauf, W. Fruehauf Consulting Ltd.**

Thank you.

Regarding the Acme processing facilities and associated gathering and sales lines, what events are you at risk for regarding these facilities?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

What events we are at risk? Well, we do have a take-or-pay with Ember, so we would ensure ourselves a minimum rate of return even if they don't deliver the volumes that they have forecasted, but really the risk is to our benefit. If they tie-in all of the wells they have forecasted or they produce better than forecasted then it will enhance the return around that plant.

**Winfried Fruehauf, W. Fruehauf Consulting Ltd.**

While it's hazardous to make observation regarding the profitability of producing and selling natural gas, wouldn't one think that CBM requires, on average, a higher price than conventional natural gas to be profitable?

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

I think on the whole that is true, but Ember had drilled a number of these wells just recently where the cost structure has come down. I think we're seeing that, particularly in this type of a well, cost structure has come down significantly, and I think they're excited about the royalty changes that'll affect their business. So that gap has been narrowed. But as a rule, yes, I would agree with you.

**Winfried Fruehauf, W. Fruehauf Consulting Ltd.**

So you are not concerned at all that Ember might throw up its hands sometime in 2008 and say that the economics of CBM production are just not conducive to operating this plant for the time being?

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

I'm always concerned, but we don't have any reason to believe that to be the case. Ember is driving ahead aggressively with the plans they communicated to us and all indications are full steam ahead.

---

**Winfried Fruehauf, W. Fruehauf Consulting Ltd.**

And in your opinion does Ember have the financial wherewithal to live up to its take-or-pay obligations vis-à-vis AltaGas?

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Yes.

---

**Winfried Fruehauf, W. Fruehauf Consulting Ltd.**

Okay. The final question I have is on the sort of outlook for the economics of natural gas production in Alberta. Obviously if the contraction of drilling activity persists, if production itself falls off, at some point in time there's got to be a natural recovery because of scarcity of natural gas. Do you see that at all as a probability in the near-term? And if yes, in what timeframe approximately?

---

**David Cornhill, Chairman, President & Chief Executive Officer**

I was more bullish on the recovery of gas prices. We were somewhat surprised by the strength of the LNG market this summer and the amount that came in and I think had a dampening effect on the recovery.

What we're seeing is that the western Canadian market has been impacted more than the rest of the North American market with respect to natural gas prices, somewhat by the Canadian dollar – that our cost structure was built on a low Canadian dollar and with the

high gas price in U.S. dollars. So I think we got a little inefficient in the space and that we need to correct our cost structure. Lower 48 have been seeing still strong drilling performance and actually some places increased deliverability. So I think we've got to become more efficient here and competitive before that.

So I don't see a significant, over the next six months, increase in prices. I think there's a general firming I would expect in natural gas prices over the mid-term but I don't see high prices. And it's all subject to weather around the world. So I'm modestly bullish on price but it's just a mild firming I would see.

---

**Winfried Fruehauf, W. Fruehauf Consulting Ltd.**

All right. Thank you very much.

---

**Operator**

Thank you. Once again, please press star one on your telephone keypad if you have a question or comment.

Our next question is from Matthew Akman from CIBC World Markets. Please go ahead, Mr. Akman.

---

**Matthew Akman, CIBC World Markets**

Thanks very much. My question is about the changing outlook on the Gathering and Processing business and in particular at the end of last quarter the outlook was for operating income to be up this year and now the outlook is for it to be down this year. I think even as recently as the Investor Day, just a short number of weeks ago, the outlook was still for it to be up, so the outlook seems to have deteriorated rather quickly and I'm just wondering if you can pinpoint the reason for that.

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

Actually, Matthew, I spoke to that at Investor Day and I'm quite sure my recollection is that the guidance I gave was that we saw a weaker third quarter and saw a flat to slightly down year-over-year performance. So we—I'll admit this decline came on us faster than we anticipated, and you can see a lot of the drop has come in the third quarter, but we were trying to signal that to the market earlier. But really the cost structure was high and when the price started to drop quite rapidly in the spring and early into the summer the producers really slowed their

drilling down and we saw a drop in the tie-ins. So I don't think it's quite as rapid as you've identified, but I'll admit it has come on us a little faster than we expected.

---

**Matthew Akman, CIBC World Markets**

What are you seeing on cost, Rick? Because we're seeing escalation for all operators of infrastructure in Alberta and you guys have done a good job of containing costs so far in this business and also in the extraction business. Is that possible going forward?

---

**Richard Alexander, Executive Vice President, Chief Operating Officer, and Chief Financial Officer**

I think so. I think it's actually in line with what David was just talking to Win about. You know, we are seeing some efficiencies starting to occur in the industry. Service costs are coming down. Where the pressures continue to be is where we're competing with things other than ourselves in the gas business, like the oil industry, sorry, the heavy oil and upgrading industry, Olympics, pipeline, steel demand. But in the service industry and in labour we are starting to see some easing.

---

**David Cornhill, Chairman, President & Chief Executive Officer**

Just on that, our Acme is on time and slightly under budget, so we have had cost containment that we're seeing and I know that producers right now are seeing more control, especially in the shallower drilling, and cost down substantially from their peaks.

---

**Matthew Akman, CIBC World Markets**

Okay, well thanks for that. That's helpful. And if I can move to power for a second, in the quarter you identified a number of \$4.3 million that was of net benefit as a result of favourable 30-day rolling average prices during the outage. So if I can just make sure I understand that, the plant owner pays you the 30-day trailing average price, or I guess you receive that and they pay you the difference between spot and that to keep you whole, so the 30-day trailing average price was relative high I guess so you guys got the gap between that very high price and, you know, whatever the contract price is. Is that kind of the way to look at it?

**David Cornhill, Chairman, President & Chief Executive Officer**

No, they pay us the 30-day rolling average. So that's the contractual payment. So instead of giving us power that we can sell in the spot market they reimburse us for the 30-day rolling average price of power.

---

**Matthew Akman, CIBC World Markets**

Yeah, so because the 30—but because the 30-day trailing average price was so high relative to that outage, I guess that's a benefit that, that's the \$4.3 million?

---

**David Cornhill, Chairman, President & Chief Executive Officer**

I'm sorry, I'm not sure where the \$4.3...it's not a number I recognize.

---

**Matthew Akman, CIBC World Markets**

On page 16 of the release.

---

**Deborah Stein, Vice President Finance**

Yeah, the \$4.3, part of it is the 30-day, the benefit from the 30-day rolling average power price, Matthew, but there were other factors that resulted in lower PPA cost that did not have to do with the average, with the 30-day RAPP. It's not all the 30-day RAPP. We didn't isolate that number.

---

**Matthew Akman, CIBC World Markets**

Well there's a—sorry, okay, there's a \$4.3 million number in the release on page 16—

---

**Deborah Stein, Vice President Finance**

Yeah, but it talks about lower PPA cost. So part of the \$4.3 is the impact of the 30-day rolling average price, it's not all of it. There are other factors impacting the PPA cost.

**Matthew Akman, CIBC World Markets**

Right, but I mean most of those factors would be pretty minor, like reduction on rate base year-over-year and stuff like that.

**Deborah Stein, Vice President Finance**

No, there were lower transmission costs as well, because there were no, ah, the generation was down. And there were other factors. The way the capacity payments work that impacted the overall cost of the PPA.

**Matthew Akman, CIBC World Markets**

Okay. I guess bottom line what I'm trying to derive is if the plant outage hadn't happened would your results have been, you know, around \$4.3 million lower?

**David Cornhill, Chairman, President & Chief Executive Officer**

No. It would have been slightly lower because of the transmission costs, but other than that it would—30-day rolling average had no effect. Should have no effect.

**Deborah Stein, Vice President Finance**

We would have benefitted from the higher spot.

**David Cornhill, Chairman, President & Chief Executive Officer**

Because we are out some 65, 70 days.

**Matthew Akman, CIBC World Markets**

Okay. You know what? I'll circle back with you on the details of that. Those are my questions. Thank you.

**Operator**

Thank you. Our next question is from Mr. Nima Billou from Bloom Investment Counsel. Please go ahead, Mr. Billou.

**Nima Billou, Bloom Investment Counsel**

Quick question on the power side. Is there anything—I mean over the near-term the outlook looks great; is there anything that could derail the sort of supply and demand balance, either a lot of transmission or generation capacity coming on board, or is the outlook fairly strong for the next several years?

**David Cornhill, Chairman, President & Chief Executive Officer**

For the next two, three years we see nothing substantial coming on that would impact. Clearly economic growth, whether it slows, would have some impact on demand, but we don't see substantial new power or transmission impacting it over the next two to three years.

**Nima Billou, Bloom Investment Counsel**

And is it more of a transmission bottleneck than a generation bottleneck?

**David Cornhill, Chairman, President & Chief Executive Officer**

South is more transmission issues, but we just, I think the big power - nothings coming on, just 11, 12 potentially at this point or later.

**Nima Billou, Bloom Investment Counsel**

Thanks very much.

**Operator**

Thank you. Our next question is from Mr. Robert Catellier from Clarus Securities. Please go ahead, Mr. Catellier.

**Robert Catellier, Clarus Securities**

I'd like to talk about the Bear Mountain partnership and your comments about taking 45 percent interest down from your current 100 percent. My question is does that suggest that you've found a partner and you're working out the details? And secondly, what does that mean for

the accounting and timing of the development of the partnership?

---

**David Cornhill, Chairman, President & Chief Executive Officer**

I will answer everything but the accounting. We're working closely with partners right now and feel comfortable that's where we'll end up. I believe we're supposed to be moving dirt later this month to get ready for foundation work next season. And the accounting rules, I used to be able to answer that but can't anymore so I'll pass it on to Debbie.

---

**Deborah Stein, Vice President Finance**

For Bear Mountain? It would, we would proportionately consolidate it.

---

**Robert Catellier, Clarus Securities**

Okay. Thank you.

---

**Operator**

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

---

**Stephanie Labowka-Poulin, Manager External Relations**

Thank you, Jennifer. If you have any follow-up questions, please give me a call, and have a great afternoon.

---

**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.

---