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PRESENTATION

Operator

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

Good afternoon ladies and gentlemen and welcome to the AltaGas Income Trust 2006 Fourth Quarter Conference Call and Webcast. I would now like to turn the meeting over to Mr. Marshal Thompson. Please go ahead, Mr. Thompson.

Marshal Thompson, Senior Vice President External Relations & Corporate Risk

Thank you, Angie.

Good afternoon everyone and welcome to AltaGas' fourth quarter and year end 2006 conference call. I'm Marshal Thompson, Senior Vice President External Relations and Corporate Risk, and I'll be your moderator.

David Cornhill, Chairman, President and Chief Executive Officer will begin with a few remarks on results for the quarter and year and he will discuss AltaGas' outlook for 2007. Richard Alexander, Executive Vice President, Chief Operating Officer and Chief Financial Officer, will then discuss our operational 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, please see the Trust's Annual Information Form under the heading Risk Factors.

David –

David Cornhill, Chairman, President & Chief Executive Officer

Thank you, Marshal, and thank you for joining us today. Welcome to our fourth quarter and year end conference call.

Today we announce another quarter of strong results, topping off another record year at AltaGas. Our annual net income broke the \$100 million threshold for the first time, ending the year at \$114.5 million or \$2.06 per unit. This is a 27 percent increase from 2005, which was itself a record year.

Fourth quarter net income was \$27.3 million or \$0.49 per unit, up from \$26.4 million or \$0.48 per unit in the fourth quarter of 2005. 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 cost, solid Extraction and Transmission performance, with higher extraction volumes processed and frac spread that was higher in the fourth quarter of 2005, and lower interest expense.

This increase was partially offset by higher costs in the corporate segment, mainly due to higher salary and benefits, the expiry of the Genesee power contract, revenue deferral in the transmission segment to account for the shortfall volumes, the spin-out of the natural gas distribution segment in the middle of the fourth quarter last year, and higher income tax.

In 2006 we increased distributions to our unitholders twice for an annual increase of 6 percent. Our net income earned surpassed our distributions distributed in 2006 and our debt to total capitalization remained well below our target range. We are well positioned to continue to grow and deliver strong, sustainable distributions to our unitholders.

In mid-January I announced the appointment of Rick Alexander as Executive Vice President, Chief Operating Officer and Chief Financial Officer and the appointment of David Wright to Executive Vice President, both effective January 16, 2007. Rick is responsible for day-to-day operations of AltaGas' operating business segments, as well as all financial matters. David Wright is responsible for corporate strategy and business development activities as well as other corporate functions.

I will now briefly discuss expectations for 2007.

For 2007 we expect the base business to remain strong. We expect all business segments to perform at or above 2006 levels. The overall performance in the year will be dependent on spot power in Alberta, our ability to successfully invest our capital in all our business segments, and to a lesser extent frac spread.

AltaGas' strategy is to have a balance of hedged and open positions in its power portfolio, which has been very effective. We have achieved our target of being

approximately two-thirds hedged for 2007. We expect to continue to see strong power prices in Alberta as a result of continued economic and power demand growth and a lack of significant new additional planned capacity in the mid-term. Current forward market prices are in the high \$70 per megawatt hour in 2007. We currently expect the power segment to perform at 2006 levels.

In the Extraction and Transmission segment we anticipate that our long-term contracts will continue to generate stable core earnings in 2007. The base extraction business will grow due to the additional volumes from the EEEP enhanced ethane recovery project and the increased interest in one of the Empress plants. With the growth in our extraction process volumes, our volumes exposed to frac spread will grow to 7 percent of our extraction volumes. Based on current natural gas and natural gas products price forecasts we expect frac spreads to climb from historical levels in 2006; however, remain above long-term averages.

On the expansion front, one of the advantages AltaGas continues to have is in its ability to meet producers' needs quickly and in innovative ways. The 18 million cubic feet per day Orion gas transmission pipeline, which is an extension of the Cold Lake system, is an example. The project includes pipeline expansion and delivery of 17,000 GJs per day of gas to BlackRock, a Shell subsidiary. It also includes modifications to AltaGas' field gathering and processing and transmission systems in the area, which will enable AltaGas to divert gas to the BlackRock facility and reduce overall Cold Lake system compressor requirements. The pipeline expansion will be completed in the first half of 2007 and this project is on schedule and on budget.

We saw a rapid slowdown in producer tie-in activity in the last two months of 2006. We believe the proposed changes in federal tax law, concerns about soft natural gas commodity price, and high service cost were a cause for the slowdown. As a result, Field Gathering and Processing segment saw lower process volumes for the year and fourth quarter. The decline in process volumes was primarily a result of lower processing plant throughput in the northern district.

Volumes processed in our southern and central plants remained flat for 2006. Field Gathering and Processing performed at close to 2005 levels as a result of adding facilities, increased processing rates, and a move to flowthrough operating contracts. Rick will discuss this in greater detail.

We are focused on the profitability of the Field Gathering and Processing business and expect to see margin

expansion in this business to offset any softness in throughput.

AltaGas expects that a lower price environment and reduced producer's access to capital markets will lead to continued opportunities to expand, build, and acquire processing facilities.

In the down part of the price cycle, producers tend to focus their capital on drilling opportunities. We are in discussions with various producers and expect to spend over \$50 million for plant development acquisition in the Field Gathering and Processing segment this year.

In the Energy Services business, the energy management and gas services businesses are expected to see growth in 2007. The energy management business should benefit from the addition of agency service customers due to the recent expansion into the electricity supply management market in Ontario. The gas service component will also expect to grow as a result of locking in back-to-back buy/sell contracts will produce fixed margins for up to a five-year term.

In summary, AltaGas' strategy and discipline positions us well. Beating 2006 results is going to be a challenge, but my team will work hard to meet it. We remain committed to running our business in the same disciplined manner we always have. We did not change our financial strategy and our focus on traditional financial metrics when we converted to a trust in 2004; we will continue to employ the same strategy going forward.

Rick will now discuss in detail our operating and financial results.

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

Thank you, David, and good afternoon everyone.

I'd like to highlight the key operational and financial results discussed in our fourth quarter news release, which you can find on our website. We plan to file our annual MD&A financial statements and notes on SEDAR around March 8th and will issue a news release when we do so.

As David mentioned, we had a strong fourth quarter and an exceptional year, especially given the fact that we spun out the gas distribution segment in late 2005, reported pre-tax gains of \$8.6 million from Taylor in 2005, and the Genesee power contract expired on March 31, 2006. We overcame these hurdles as a result of strong

power prices, exceptionally high frac spreads, and lower interest expense and tax rates. We did however begin to see the challenges of lower producer activity and declines in the Field Gathering and Processing segment.

Contrary to what we expected three months ago, well tie-ins did not increase as much as we had anticipated. They were down to 84 from 128 in the fourth quarter of 2005 and to 384 for 2006 as a whole, down from 456 in 2005. We expect that tie-ins and drilling will continue to be lower until gas prices firm up and that our volumes processed will be impacted. Despite the lower volumes extracted, AltaGas anticipates that its strategy to increase the flowthrough of operating cost to increase volumes from our new facilities and our take or pay provisions will mitigate the impact of lower tie-ins and natural declines.

Average throughput in the quarter was 549 million cubic feet per day, down 24 million cubic feet per day from levels in the fourth quarter of 2005. Average utilization declined to 54 percent from 60 percent in the fourth quarter of 2005. The decline in utilization was primarily due to lower throughput at existing facilities as a result of natural declines and the recent slowdown in producer drilling and well tie-ins. One percentage point of the decrease was due to the fact that licensed capacity was 13 million cubic feet higher than throughput capability built at two new plants. The new Princess and Clear Hill plants operated at 56 percent and 68 percent respectively during the quarter but exited the quarter at 65 percent and 80 percent, which was close to 100 percent of throughput capability. From a throughput perspective, in the shallower South district, the new Princess facility added 11 million cubic feet per day of throughput compared to the fourth quarter of 2005. This partially offset the impact of natural decline, lower producer activity, and operational disruptions, resulting in fairly flat volumes. Throughput in the district decreased by 7 million cubic feet per day, or 2 percent.

In the North district, volumes processed decreased by 17 million cubic feet per day, or 7 percent. The new Clear Prairie and Clear Hills gas plants increased throughput by 9 million cubic feet per day in the quarter. This increase was more than offset by natural declines, severe winter weather in November which froze off producer wells, and upstream operator issues which curtailed volumes at Rainbow Lake and Ante Creek. In addition, the Marten Creek area, which is a winter-only access drilling area, saw volume declines of 15 million cubic feet per day as a result of last year's drilling program being less successful than anticipated. We believe that despite the declines that took place in the fourth quarter the North district will continue to experience high producer activity and potential opportunities to increase throughput.

Operating income in the Field Gathering and Processing segment was \$7 million in the quarter compared to \$7.6 million in the final quarter of 2005. Operating income increased by \$1.4 million as a result of new facilities added in late 2005 and in 2006 and by \$0.6 million due to higher rates. These increases were the direct result of AltaGas' strategy to manage the risk of volume decline by adding new facilities, implementing rate increases, passing more cost through to producers, and ensuring that most new plants have take-or-pay commitments. The increases in the quarter were offset by \$1.2 million due to lower throughput; \$600,000 due to the write-down of goodwill related a non-core investment; and \$900,000 of higher amortization expense.

The 2005 operating income included \$1.5 million in take-or-pay revenue, which was mostly offset by the \$1.4 million in corporate costs charged to the segment in fourth quarter 2005. In 2006 these costs are now included in the corporate segment but the 2005 costs were not reclassified. The end result was flat operating income excluding the non-recurring goodwill write-down.

In 2006 Field Gathering and Processing operating income was \$25.4 million compared to \$24.1 million in 2005. The increase was due to \$2.7 million in increased earnings from new facilities, \$2.6 million due to higher rates, and \$2.5 million from higher operating cost recovery, again, a direct result of AltaGas' strategy to manage the risk of volume declines by adding new facilities, increasing processing rates, and moving to cost flowthrough provisions in our contracts. These increases were partially offset by lower producer activity and operational and third-party disruptions at Bantry and Rainbow Lake, which persisted throughout the year and decreased operating income by \$5.3 million. In addition, there were volume declines that cost approximately \$2 million, higher amortization of \$1.3 million due to expansions, and the goodwill write-down. Adjusted for corporate costs of \$3.3 million that were charged to the segment last year and \$0.9 million in positive equalizations of operating costs in 2005, FG&P operating income was down approximately \$1 million year over year.

Moving on to the Extraction and Transmission segment, results were almost flat compared with fourth quarter last year and up 16 percent year over year to \$7.1 million and \$35.2 million respectively. Both increases were primarily due to higher frac spreads and higher volume processed in the extraction business.

In 2006 transmission volumes declined to 400 million cubic feet per day from 432 million cubic feet per day due

to lower deliveries from shippers, primarily on the Suffield and Cold Lake transmission systems. As a result, operating income in the transmission business decreased in 2006 as a result of the deferral of \$0.8 million to account for the shortfall volumes credited to the shippers account in the year.

Frac spreads were approximately \$13 per barrel in the fourth quarter and \$18.50 per barrel for the year compared to \$6.50 and \$9.50 per barrel in the same period of 2005. In extraction, our ability to lock in the majority of volumes to long-term contracts but leave a small portion exposed to frac spreads paid off in 2006. The 7 percent of our volumes exposed to frac spread added \$9.1 million to net revenue in 2006. In 2005 the 5 percent of volumes exposed to frac spread added \$3.7 million. In times of low or negative frac spreads, like the fourth quarter of 2005, we have the ability to re-inject the liquids, thereby limiting our downside exposure. The increase in percentage of volumes exposed to frac spread was a result of increased volumes flowing through our facilities and not to a change in contracting strategy or term.

The enhanced ethane recovery project at our Edmonton extraction plant increased processing volumes in December. The project was completed in January and increased total annual ethane production capability by 10 percent or 800 barrels per day. Since full completion of this project in late January, incremental ethane production has at times exceeded 1,000 barrels per day. Also in late 2006 AltaGas increased its ownership at one of the Empress extraction facilities, which increased our extraction capacity by 15 million cubic feet per day, and David has already mentioned the 18 million cubic feet per day Cold Lake Orion transmission expansion project planned for May 1st.

Before I move on to the power segment I should point out that pipeline throughput has minimal overall impact on the financial results for the segment due to cost of service and take or pay contractual arrangements in place. While we deferred \$0.8 million in revenue to account for lower volume shipped in 2006, given current throughput on the Suffield system we do not expect revenue to be deferred in 2007.

Our Power Generation segment finished off the year with another very strong quarter. Our average price received on the sale of power, which includes both hedged and spot sales, was over \$83 per megawatt hour, up more than \$18 from the same quarter last year and \$10 in Q3 this year. For 2006 as a whole our average price received was just under \$70 per megawatt hour, up almost \$15 from 2005. In comparison, the average

power pool price was \$80 per megawatt hour in 2006, up \$10 from 2005. The average spot price was just under \$117 per megawatt hour in the fourth quarter of both 2005 and 2006.

At \$25.5 million, fourth quarter 2006 operating income in the Power Generation segment was 60 percent higher than in the fourth quarter of 2005. Revenue from the sale of power was higher due to higher hedge prices and to lower hedged volumes, the latter leading to higher revenue from spot sales. In addition, transmission costs for Sundance dropped by \$7.8 million in the fourth quarter compared to the same quarter in 2005 due to the changes in the transmission tariff methodology that went into place on January 1st this year. Note that the Genesee contract reported net revenue of \$2.1 million in the fourth quarter 2005.

In 2006, operating income of just under \$91 million in the Power Generation segment was 87 percent higher than in 2005. Again, these increases were due to higher power prices received as a result of higher hedged spot prices and to lower transmission costs. Higher earnings from the gas-fired peaking plans also contributed \$2.1 million to the increase. Genesee contributed \$4 million to net revenue in 2006, down from \$6.5 million in 2005.

On the development front, AltaGas and Aeolis continue work on optimizing the Bear Mountain Wind project configuration. We are also finalizing key supplier contracts and construction is scheduled to begin later this year with the project scheduled to be in service in 2009. As the project is likely to include one or more additional investors, we have not yet finalized our ownership interest in the project. We also continue to work with Aeolis and GreenWing to develop renewable energy projects in a number of other jurisdictions.

The Energy Services segment accounted for less than one percent of operating income in the fourth quarter at \$0.2 million compared to \$1.8 million in the fourth quarter of 2005. The decrease was mainly due to lower volumes and higher depletion rates in the oil and gas production business and a higher amortization of energy services contracts and relationships, primarily due to a \$0.6 million adjustment reported in fourth quarter 2005. Both the number of energy management services contracts and average gas volumes marketed were up compared to the previous quarters of 2005. In 2006 Energy Services operating income was \$2.8 million compared to \$5.6 million in the same period in 2005, primarily due to lower profitability in the oil and gas production business.

Oil and gas production, a non-core business for AltaGas, has been experiencing production declines as a result of

minimal capital expenditures in 2006. The underlying reserves in this business continue to have value and AltaGas is considering alternatives for maximizing the value of these assets.

In the fourth quarter of 2005 the Natural Gas Distribution segment contributed operating income of \$1.2 million based on six weeks of results. With the spin-out of this segment in November 2005 we now hold a 27 percent share of AltaGas Utility Group and therefore included income of approximately \$700,000 in our corporate segment this quarter. The segment contributed \$6.2 million in operating income in 2005 and paid \$1.1 million in taxes. In 2006 \$1.1 million of revenue from the Utility Group is included in the Corporate segment.

The Corporate segment has an operating loss of \$7.8 million in the fourth quarter compared to a loss of \$4.5 million in the same period in 2005. The increase cost of the segment was due to higher salaries and benefits and higher cost due to general escalations and growth of the Trust. It was also a function of the cost no longer being charged in the operating segments. Also there was the 2005 gain of \$900,000 due to the spin-out of the Gas Distribution business. The higher loss was partially offset by higher earnings from Taylor and Utility Group, the latter due to its inclusion for the entire quarter compared to six weeks in 2005, and to the \$600,000 write-down of an investment in a private company in fourth quarter 2005.

In 2006 the Corporate segment had an operating loss of \$27.6 million, \$20.7 million higher than in 2005. The increased cost to the segment was due to several factors. In 2006, administrative and compensation costs increased by approximately \$9 million; in 2005, one-time items related to our Taylor investment added \$8.6 million to operating income in 2005; and the gain on sale of Utility Group units added \$900,000. \$3.9 million of corporate costs were reported in the operating segments rather than in the Corporate segment and the cost to meet certification requirements were \$1 million lower. This was partially offset by higher earnings reported for AltaGas' investment in Taylor as well as earnings from Utility Group for all of 2006 compared to six weeks in 2005, and the 2005 write-down of the private company previously discussed.

Now that I've discussed results in each of the segments, I'll move to a discussion of some consolidated numbers.

Amortization costs for 2006 were \$46.4 million compared to \$47.4 million in 2005. The \$6.8 million increase in amortization due to the distribution business spin-out was partially offset by growth in the Field Gathering and

Processing segment, the addition of IQ2, increased depletion expense for oil and gas properties, amortization related to the acquisition of Energy Services contracts and relationships, and the fourth quarter 2006 goodwill impairment related to a non-core investment.

Our 2006 interest expense was just over \$13 million, a 30 percent decrease from the 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 and to higher funds from operation. Also contributing to the lower interest expense was an average borrowing rate of 4.9 percent, which was 70 basis points lower than in 2005, primarily driven by the August 2005 refinancing of term debt at lower rates.

Income tax recoveries in 2006 were \$1.1 million compared to recoveries of \$1.3 million in 2005. Decreased recoveries were a result of higher net income before tax in 2006 partially offset by the non-cash future tax benefit of \$6.6 million that resulted from federal and Alberta income tax reductions in 2006. Income taxes reported in 2005 also included approximately \$1.1 million of expense related to the gas distribution segment, an adjustment related to future tax liabilities in fourth quarter 2005 that resulted in a recovery of \$1.6 million, and a lower effective tax rate for the Taylor capital gain reported in 2005. In the quarter income taxes were \$1.4 million compared to recoveries of \$1.3 million in fourth quarter 2005.

Invested capital in the quarter totalled almost \$13 million compared to \$56 million in the fourth quarter of 2005. Over 2006 we invested more than \$71 million compared to \$90 million in 2005. I'll remind you that these numbers are not net of disposals, which were minimal in 2006 but totalled almost \$220 million in 2005 when we disposed of the natural gas distribution business, some of our Taylor units, and the Winefred processing facility.

Growth capital spent in 2006 was \$62 million, \$53 million of which was spent in the Field Gathering and Processing segment. The invested capital tables in our news release give you a detailed view of where we have spent our capital this year.

With respect to our balance sheet, total debt on December 31, 2006 was \$265.5 million; \$3.5 million lower than at the end of 2005. Our total debt to cap ratio was 33.4 percent, down from 36 percent at the previous year end and still well below our target of 40 to 45 percent.

I'm happy to report that in the fourth quarter DBRS confirmed AltaGas' medium-term note and stability

ratings and increased the trend on our MTN rating from Stable to Positive. S&P also affirmed its stability, corporate credit, and senior unsecured debt ratings as well as confirmed its outlook on AltaGas. Both rating agencies were comfortable with our growth strategy and financial targets and recognize that our business fundamentals and credit metrics continue to be strong.

In the first quarter of 2007 we also issued \$100 million of senior unsecured medium-term notes with a coupon rate of 5.07 percent and a maturity date of January 19, 2012. We were extremely pleased with the response to our issue. It gives us more financial flexibility to pursue growth opportunity and better align our capital structure with our assets. With this increased liquidity we have substantial capacity to fund growth without accessing equity markets while remaining within our target debt levels.

In regards to cash flow, funds from operation in 2006 were up 25 percent to almost \$162 million. The 2005 funds from operations 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 2005.

2006 distributions declared were just under \$2 per unit or \$111 million. This resulted in a payout ratio of 69 percent, down from 78 percent of funds from operations in 2005. Our payout ratio target continues to be 70 to 80 percent of funds from operations.

Overall, our balance sheet and cash flow remain strong and are underpinned by strong operating results. These position us well to capitalize on growth and opportunities when they arise.

With that I will now turn the call back to Marshal.

Marshal Thompson, Senior Vice President External Relations & Corporate Risk

Thank you, Rick.

That completes the formal part of our conference call this afternoon. David and Rick as well as David Wright, Executive Vice President, are now available to answer your questions.

Angie, I'll now turn the call back to you for the question and answer session.

QUESTION AND ANSWER SESSION

Operator

Thank you, Mr. Thompson. 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.

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

Linda Ezergailis, TD Newcrest

Thank you. This is a question, a high-level one for David. You mentioned in your commentary that you expect your base businesses to be at or above 2006 levels; can we translate that down to the bottom line and imply that earnings per unit growth will be flat or up in 2007 versus 2006?

David Cornhill, Chairman, President & Chief Executive Officer

On the base business yes. I think I pointed out that we do have some exposure to spot price on power and that could have a material impact on performance, but our target in the market looks strong, so our expectation there is that 2006 level. Some exposure as well, as you saw, on the frac spread. We are expecting a slight decline there offset by growth in base business, but depending where frac spread comes in there's some question, some variability there. The other place that you will see is just some G&A control cost and cost of just operating. We're not sure what 2007 but we feel that we'll have a good year and the only other non-recurring item of significance is the tax change of \$6.6 million.

Linda Ezergailis, TD Newcrest

Okay, well maybe we can drill down a little bit more on the power prices. Can you—I think in the write-up it was mentioned that the hedged prices are at higher levels than 06; are they at higher levels than current forward markets suggest or are they kind of in the money, out of the money, flat versus what the forward markets are suggesting?

David Cornhill, Chairman, President & Chief Executive Officer

The forward markets are suggesting mid-70s to low-80s, especially in the back half, and I think February's going to come in the \$75 range. It's been fairly volatile but it's been a strong quarter. We feel comfortable that on a full year that we'll see power prices consistent with 06 at this time, that's what the market's saying, and solid performance.

Linda Ezergailis, TD Newcrest

So you expect your realized prices in 2007 to be consistent with your realized prices in 2006?

David Cornhill, Chairman, President & Chief Executive Officer

Yes.

Linda Ezergailis, TD Newcrest

Okay. Moving on to 2008, what do you see as a power market outlook there in terms of pricing and how much have you locked in for 2008?

David Cornhill, Chairman, President & Chief Executive Officer

We have locked in a modest amount at this point. Current pricing with limited liquidity is in the high-\$70 per megawatt hour.

Linda Ezergailis, TD Newcrest

Okay. And just a final question on your power business. Transmission costs, we saw a big delta in 06 versus 05; can we assume that transmission costs in 07 and 08 are flat versus 06 or is there something going on there?

David Cornhill, Chairman, President & Chief Executive Officer

Generally flat.

Linda Ezergailis, TD Newcrest

Great. Thank you. I'll jump back in the queue.

Operator

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

Robert Catellier, Clarus Securities

Could you comment on the rate of SG&A and separately operating expense inflation? Have you seen a change in where those are going?

David Cornhill, Chairman, President & Chief Executive Officer

I'll answer SG&A and I'll let Rick answer operating cost.

We would expect to see a slowdown in our growth in SG&A and I will be working hard with my team to ensure that.

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

With regards to the operating cost in the FG&P business, our expectation is we would see flat to maybe very modest increase in operating costs in 2007.

Robert Catellier, Clarus Securities

What about the other segments?

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

I think we would expect to see consistent results in the other segments as well.

David Cornhill, Chairman, President & Chief Executive Officer

And we're not seeing significant cost increases on our power side.

Robert Catellier, Clarus Securities

Okay. Just on the impact of current commodity prices, particularly natural gas, leading to maybe a less robust tie-in activity in drilling, etcetera. If you look at the actual current natural gas prices they're not very different than where Q1 06 exited, so I'm wondering if it's more a capital availability issue and therefore an opportunity for the trust to put its balance sheet to work. Do you have a comment on that?

David Cornhill, Chairman, President & Chief Executive Officer

I think we've clearly seen some liquidity issues in terms of capital access for smaller juniors and we've seen lower pricing for those, so I think there's opportunity there to make good investments. I would suggest at this point though the—it's similar to the housing market that the price has not fallen to a level that we think are prudent, make prudent investments. We think that that will happen over the year.

I think the other big issue that we saw earlier in 2006 were prices on rigs and costs just got out of control, and those are seeming to, starting to come back as well to more reasonable levels. So we think also even at this price they'll be more economic with lower drilling costs and lower operating costs. So we think it will, activity will come back over time.

Robert Catellier, Clarus Securities

Yeah, so it just takes time for the expenses to normalize and the prices come down.

David Cornhill, Chairman, President & Chief Executive Officer

I think it's also showed that in the lower-cost areas our South felt pretty solid and Central very solid in terms of performance that I think might have surprised some people.

Robert Catellier, Clarus Securities

Can you reiterate the capital expansion budget for Field Gathering and Processing? I missed that figure.

David Cornhill, Chairman, President & Chief Executive Officer

In excess of \$50 million.

Robert Catellier, Clarus Securities

Okay. And just along the same line of thinking, um, I'm wondering if your current financial strength and perhaps the capital constraints in the market would not lead to more wind power opportunities.

David Cornhill, Chairman, President & Chief Executive Officer

We see a lot of opportunity in wind over time, not short-term in terms of 2007. We do still see a fair bit of competition on the wind side if you're looking at the acquisition side and pricing isn't very attractive at this point.

Robert Catellier, Clarus Securities

Okay. And again, with your current balance sheet, I'm wondering what the strategy is for bringing in a financial partner or another partner on the Bear Mountain project. Is it just risk sharing or is there some other reason for it?

David Cornhill, Chairman, President & Chief Executive Officer

One of our views on wind is having a diversified portfolio and looking at just having one project we have more exposure to the fickleness of wind from quarter to quarter, we want to have a geographically diverse portfolio and clearly we don't want to put all, you know, \$100 plus million into one project and eliminate capital for another. So it's clearly a risk mitigation and we think it's the prudent way to hold wind assets.

Robert Catellier, Clarus Securities

How were you able to increase your ownership interest at Empress?

David Cornhill, Chairman, President & Chief Executive Officer

We had ROFR rights.

Robert Catellier, Clarus Securities

Are there any other investment opportunities there?

David Cornhill, Chairman, President & Chief Executive Officer

We just completed the expansion. We're looking at some other debottlenecking on ethane opportunities. We see some small pipeline opportunities as well. We've got, our BD people are putting in long hours right now.

Robert Catellier, Clarus Securities

And just, the distribution level, your distributions in 2006 were lower than your net income, which I think has been a target for some time and, again, the capital structure is sound, so I'm curious as to why we didn't see a distribution increase with the February announcement.

David Cornhill, Chairman, President & Chief Executive Officer

I think it's prudent from our strategy, we do expect to grow and put the capital to use. The second is until we get clear vision from federal government we think clearly short-term we could increase our distributions but we're looking at the long-term and looking at what four years out means to our unitholders. So those are the considerations that we had at this point and decided that it was a more conservative and better statement to the marketplace to hold our distributions at \$0.17. And you can see that they're very solid compared to maybe some other trusts.

Robert Catellier, Clarus Securities

Okay, thank you.

Operator

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

Matthew Akman, CIBC World Markets

Thanks. I just want to clarify guidance on the Field Gathering and Processing for 07. Do you guys expect operating income to be roughly flat with 2006? Is that what you were saying?

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

Yes, that's what we're budgeting towards.

Matthew Akman, CIBC World Markets

So on the one hand I guess lower costs are offsetting some of the drilling reduction, but on the other hand you guys have invested over \$100 million in the past couple years in that business for effectively flat results, so is really the return on that incremental capital sort of the casualty of this reduction in drilling?

David Cornhill, Chairman, President & Chief Executive Officer

I'll answer first. Our new plants came on slower than we anticipated and we're just now starting to see them perform at the levels we thought. So 2006 isn't a fair representation. We're very focused on profit margin expansion and clearly Rick has a mandate to do that in our Field Gathering and Processing. We think there's a lot of opportunity there in that business and we were challenged on the ROI and we're focused on moving that up. We didn't see the full effect of capital in 2006 and we expect that in 2007.

Matthew Akman, CIBC World Markets

But on the drilling, I mean do you think 07 is going to be what you would consider to be sort of a depressed year of drilling, or is that a more normal year than we've seen maybe in the past couple of years? Or what's your, I guess, outlook on that?

David Cornhill, Chairman, President & Chief Executive Officer

We have diverse views within the company. I'm slightly more optimistic than some people in our company. I think it's going to be a normal year. My concern is winter-access-only stuff. We may not see that until 08. But the all year 'round stuff I think is going to be a reasonably good year.

Matthew Akman, CIBC World Markets

Okay, maybe I could move on and just ask what is the status of the GreenWing partnership specifically? Are there still development opportunities there on the wind side?

David Cornhill, Chairman, President & Chief Executive Officer

There are. Our understanding is Manitoba will be RFPing for wind power in the second quarter of this year. We are close to having environmental permits and licensing for three different projects within Manitoba, so they're moving forward to be ready for an RFP in 2007.

Matthew Akman, CIBC World Markets

So you're still working with the GreenWing folks?

David Cornhill, Chairman, President & Chief Executive Officer

Yes. They also have a couple projects in the U.S. that we're more developers on and those are still moving forward as well.

Matthew Akman, CIBC World Markets

Okay great. Thanks. Those are my questions.

Operator

Thank you. Once again, please press star one at this time if you have any questions.

The following question is from Nima Billou from Bloom Investment Counsel. Please go ahead.

Nima Billou, Bloom Investment Counsel

Good afternoon gentlemen. Quick question: In terms of the costs, is it a matter of...like for instance the Energy Services segment, I know it's a relatively smaller segment but is it a matter of adding sort of the human capital, adding to the sales force that's causing a spike in these costs? You'd mentioned it was part admin, part compensation, and then you expect sales and revenues to follow. Or is it a question of just having to pay more for existing talent?

And with respect to volumes on the Field Gathering and Processing side, a lot of your facilities are mobile; do you expect to reallocate them to other areas where drilling may be flat or is this just a question of broad decline?

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

On the first question with regards to the Energy Services, we do have to add manpower capital to grow those volumes, but some of the costs you referred to in that sector are actually in the corporate segment, such as increased salaries and benefits. As well, a large part of the cost increase in that segment in 2006 was related to the oil and gas business where it is also included in that segment.

On the volumes at our skid-mounted assets for the FG&P business, we have seen the decline greater in the north than we have in the south so far to date but we don't expect that to continue as we see more winter drilling ties in the north. We will use our skid-mounted facilities to relocate to where producers are expanding their operations. That's been our strategy and that'll continue to be our strategy.

Nima Billou, Bloom Investment Counsel

Okay. And what would account for just general cost inflation I guess? What are some of the pressures you're seeing on the operating cost side?

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

In the FG&P business particularly 2006 experienced, in all of western Canadian basin but particularly in Alberta experienced significant inflationary pressure because of the high demand for both people and services such as rigs and engineering firms, contractors, compressors,

pipe, steel. With the oil sands growth it put a lot of pressure. We're seeing that pressure subside in the latter part of 06 and into early 07.

Nima Billou, Bloom Investment Counsel

Okay. So it's mainly...would it be split evenly between the people and the services side in terms of the pressures?

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

I think they both have experienced similar pressures, yes.

Nima Billou, Bloom Investment Counsel

Okay. Those are my questions. Thanks.

Operator

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

Fai Lee, RBC Capital Markets

Great, thanks. David, can you remind me how much you have right now in terms of percent, sorry, for the Field Gathering business, how much of the business is related to contracts where you have a percentage of operating flowthrough costs—

David Cornhill, Chairman, President & Chief Executive Officer

About 40 percent as of year end I believe.

Fai Lee, RBC Capital Markets

At year end? And where do you expect that to go to at the end of the year 07?

David Cornhill, Chairman, President & Chief Executive Officer

North of 50.

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

What we're trying to do, Fai, without any facetiousness in it, is we're trying to grow that at about 10 percent a year. So we'll have an objective of getting that number up towards the 50 percent level by year end.

Fai Lee, RBC Capital Markets

Okay. And what's a bottom line...like if you achieve your 10 percent per year, what's the bottom line contribution to operating margin approximately?

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

Well it's difficult to say but, you know, in each year, because it depends on where the contracts are and how the operating cost relates to the existing arrangements under fixed price, so it's not so simple as you don't know where you'll be successful at putting those contracts in place. But we saw probably about a \$0.04 per mcf increase in the last year. I think that would be a priority.

Fai Lee, RBC Capital Markets

And just go up—was about 10 percent in 06?

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

It was up about 10 percent in 06. I think it went from 30 to 39 percent.

Fai Lee, RBC Capital Markets

Okay. All right, great. And just another question on what's your plan for Taylor? Last year you took your investment down, thought the units were expensive. What's your view now?

David Cornhill, Chairman, President & Chief Executive Officer

At this point we're a hold.

Fai Lee, RBC Capital Markets

Okay. All right. Thank you.

Operator

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

Linda Ezergailis, TD Newcrest

Thanks. This is a clean up question. In terms of your maintenance and admin capital going forward, can we still expect \$5 to \$6 million annual run rate for the maintenance and \$3 to \$4 million for your admin capital?

David Cornhill, Chairman, President & Chief Executive Officer

Yes. I think so.

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

Yes, that should be what we'd see in 07.

Linda Ezergailis, TD Newcrest

And in terms of your working capital and your operational cash flows, we've seen now both in 05 and 06 a substantial draw on capital, what was driving that and what might we expect going forward?

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

I'm sorry, Linda; I'm not sure I follow your question.

Linda Ezergailis, TD Newcrest

Well if we look in the cash flows from operations, I don't recall seeing in your write-up an explanation of what's going on in your net change and non-cash working capital, and it was a use of capital, \$14.3 million in 2006 and \$16.5 million in 2005, so I'm just wondering is that a

function of commodity prices and where is that going on in your business and what might we expect going forward? Is it a function of your business growing?

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

Yeah, I think that increase is primarily driven by an increase in receivables, which is largely due to higher power prices, so we have higher receivables at the end of each month now with the higher commodity.

Linda Ezergailis, TD Newcrest

So if power prices stay flat in 07 versus 06, then conceptually we shouldn't see that being a source of capital.

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

All else equal, yes.

Linda Ezergailis, TD Newcrest

Okay. Thank you.

Operator

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

Robert Catellier, Clarus Securities

Just a clarification question. I believe I read in the press release that there wasn't any—there was actually a lower contribution to net revenue from the peaking plants despite similar spot prices for natural gas compared to last year. I'm wondering why the peaking plant did contribute more in the fourth quarter.

David Cornhill, Chairman, President & Chief Executive Officer

I'm being told by Debbie in Q4 they were down. We had some locked-in margins there for some ability to reduce our go-forward O&M costs that we thought were prudent.

So we didn't realize some of the high peaks there. The other thing, prices in December around the 15th tailed off quite dramatically as people went away for Christmas and we saw lower prices in the last two, three weeks of December.

Robert Catellier, Clarus Securities

Okay, so you just took some operating and some maintenance.

David Cornhill, Chairman, President & Chief Executive Officer

We were, yeah, we did some things to ensure our long-term reduction costs of operating cost.

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

But it was, you know, it was largely driven by, as David said, the drop in the power price relative to the gas price, so basically the heat rate.

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 to Mr. Thompson.

Marshal Thompson, Senior Vice President External Relations & Corporate Risk

Thank you, Angie.

If you have any follow-up questions, please give Stephanie or I a call. Thank you.

Operator

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