

## CORPORATE PARTICIPANTS

**Sheena McKellar**  
*Investor Relations*

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

**Richard Alexander**  
*President & COO*

**Debbie Stein**  
*Vice President Finance & CFO*

## CONFERENCE CALL PARTICIPANTS

**Linda Ezergailis**  
*TD Newcrest*

**Nima Billou**  
*Bloom Investment Counsel*

**Robert Catellier**  
*Clarus Securities*

**Fai Lee**  
*RBC Capital Markets*

**Matthew Akman**  
*Macquarie Research Equities*

**Tony Courtright**  
*Scotia Capital*

**Michael Simpson**  
*Sentry Select Capital Inc.*

## PRESENTATION

### Operator

Good afternoon ladies and gentlemen. Welcome to the AltaGas Income Trust 2009 Second Quarter Conference Call and Webcast. I would now like to turn the meeting over to Ms. Sheena McKellar of Investor Relations. Please go ahead, Ms. McKellar.

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### Sheena McKellar, Investor Relations

Thank you, operator. Good afternoon everybody. Welcome to AltaGas' second quarter 2009 conference call. With me today are David Cornhill, Chairman and Chief Executive Officer; Richard Alexander, President and Chief Operating Officer; and Debbie Stein, Vice-President, Finance and Chief Financial Officer. After some formal comments we'll have a question and answer session.

Before we begin let me 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 they are subject to certain risks which could cause actual performance and financial results to vary materially from those contemplated in the forward-looking statements. For additional information on these risks, please take a look at our annual information form under the heading "Risk Factors."

I will now turn the call over to David.

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### David Cornhill, Chairman & Chief Executive Officer

Thank you, Sheena. Good afternoon.

First I'd like to thank everyone for making this conference call on short notice. We are up at Bear Mountain tomorrow. Our normal call would have been tomorrow morning with release later today but to accommodate that trip and meetings up there we moved it forward, so we should go back to our normal process after this quarter.

Today I'd like to highlight a few items: financial results; update on our current construction projects; capital outlook for 2009 and 2010; outlook for distributions and plans for dividends once AltaGas becomes a taxable corporation.

Second quarter net income was \$36.9 million, 12 percent higher than the \$32.9 million reported in the second quarter last year. On a per-unit basis reported net income was \$0.47 in the second quarter of 2009. The second quarter earnings reflect the benefit of AltaGas' stable operation, diversified power and gas assets, and disciplined risk management.

While part of our businesses faced a challenging economic environment during the quarter, overall our infrastructure business reported good results. We expect 2009 to be another strong year for earnings as the growth projects we have been developing over the past couple of years come on line and contribute to earnings. One other important factor in the strong performance in the first half is our strong management team, how they stepped up for the challenging environment and delivered good results.

Our Harmattan initiatives have added new volumes. Sarnia storage is in service and contributing earnings. Our Bear Mountain Wind Park is proceeding well and four of the 34 turbines fully installed and two delivering power to the grid. We are delivering these projects on time, on budget.

AltaGas expects capital expenditures for 2009 and 2010 to increase by approximately 20 percent and 30 percent to \$300 million and \$200 million respectively. The \$240 million committed to date in 2009 is for the completion of the Bear Mountain Wind Park, the completed Sarnia storage, and various gas projects. Almost all of the uncommitted \$60 million relates to gas projects. Estimated capital for 2010 is anticipated to be \$200 million and split 80 percent for gas and 20 percent for power. I would like to add there is a significant potential to expect the capital expenditure for 2010 to be increased.

We continue to implement our growth strategy and pursue opportunities in both our gas and power business. This includes optimizing infrastructure, building new assets, and diversifying our business by fuel source and geography. With 1,900 megawatts of renewable energy development and a number of gas opportunities under assessment, we have secured future growth options for AltaGas. We are making progress on an unprecedented number of growth opportunities in both the gas and power businesses, working closely with current and potential customers to meet their infrastructure needs and move our projects forward.

We submitted our application for the Harmattan Co-streaming Project to the ERCB in April. The application is currently under review. We have also signed an MOU with Nova that demonstrates strong industry support that exists for this project.

We have seen gas investment opportunities increase in recent months and subsequently we are working closely with producers to pursue plant expansions and new gas processing developments. Despite the lower gas price environment we are undertaking engineering and feasibility studies and are expediting plans to realize the best opportunities.

Moving to our power business, our renewable development portfolio includes 1,500 megawatts of wind and 400 megawatts of run-of-river hydro projects which diversifies our power business by fuel source and location. Among these renewable projects, Walker Ridge in California and Glenridge in southeast Alberta, are furthest along. There will be a PPA bid process in California later in the third quarter. Our Log Creek and Kookipi Creek run-of-river projects have 40-year EPAs in place with BC Hydro and are currently in the permitting phase. We have also submitted three run-of-river projects into the BC Hydro call for clean power.

We expect to convert into a dividend-paying corporation in the second half of 2010. Consistent with what we have indicated in the past, the conversion to a corporate structure makes the most sense for our business and

investors. AltaGas expects to continue to implement its growth strategy while seeking to provide investors with a balance between income and growth. As a corporation, management expects to pay a dividend in the range of \$1.10 to \$1.40 per share on an annual basis. At the time of conversion the board of directors will approve the dividend policy subject to economic and financial conditions at the time. Until our expected conversion in the second half of 2010 we expect to continue to pay a monthly distribution of \$0.18 per unit. We will continue to follow our strategy, investing in assets that provide stable long-term cash flow and strong returns for our investors.

I'd like to now turn the call over to Debbie.

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**Debbie Stein, Vice President Finance & CFO**

Good afternoon everyone. Thank you, David.

As David mentioned, net income in first quarter was \$36.9 million. Net income for the six months ended June 30, 2009 was \$74.4 million compared to \$70.5 million for the same period in 2008.

Interest expense for the second quarter was \$8 million compared to \$6.3 million in the same quarter last year due to a higher average borrowing rate as a result of the \$200 million MTN issuance in April 2009 at 7.42 percent coupon rate. The increase was partially offset by lower average debt balances of \$590.6 million compared to \$650.9 million. Year-to-date interest expense was comparable to the same period last year.

Income tax in the second quarter of 2009 was \$0.8 million compared to a recovery of \$2.8 million in the same period 2008. The increase was due to the tax impact of risk management contracts and higher income subject to the tax provision.

Invested capital for the second quarter 2009 was \$59.4 million and this included \$44.6 million for construction activities at the Bear Mountain Wind Park as well as \$6.1 million for various extraction and transmission projects and \$3.9 million for the Sarnia Storage Project, which was completed on time and on budget during the quarter.

Based on the many opportunities we are pursuing to grow our business, our expected CapEx, as David indicated, has increased from \$250 million to \$300 million in 2009 and from \$150 million to \$200 million in 2010.

At June 30, 2009 we had approximately \$510 million of liquidity available to support our growth strategy. At the end of the second quarter our debt to total capitalization was 36.1 percent, below our target of 40 to 45 percent,

giving us the financial flexibility and capacity to support our growth strategy.

In the second quarter we increased our financial flexibility with two medium-term note issues, extending our debt maturity profile to better match our cash flow profile.

Distributions declared during the quarter were \$0.54 per unit or \$42.7 million. In second quarter our payout ratio rose above our target range to 93 percent of funds from operations and we remain comfortable with the current distribution level until conversion to a corp.

With our strong balance sheet, commitment to our investment-grade credit rating and financial flexibility we're well positioned for continued growth and strong performance in 2009 and beyond.

With that I will pass the call over to Rick to discuss our operating results and outlook.

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**Richard Alexander, President & COO**

Thank you, Debbie.

Our business reported \$45.5 million in operating income in second quarter 2009 compared to \$37 million in second quarter last year.

In the second quarter extraction and transmission reported \$20.6 million of operating income compared to \$18.8 million in the second quarter of 2008. Results benefited from the absence of extraction facility turnarounds and additional revenue from a 2008 investment at Harmattan and the EDS pipeline upgrade.

While spot frac spread prices declined 46 percent from second quarter last year, averaging \$16 per barrel in the second quarter of 2009, AltaGas realized a strong frac spread of \$22 per barrel as a result of our hedging strategy. This compares to realized frac spreads of \$28 per barrel in the same period last year. In second quarter 2009 the 13 percent of extraction volumes exposed to spot frac spread added \$7.8 million of net revenue compared to the same period last year when 14 percent of extraction volumes exposed to spot frac spread added \$13.9 million of net revenue.

For the remainder of 2009 AltaGas has hedged approximately two-thirds of frac-exposed volumes at approximately \$25 per barrel. Given our existing frac spread hedges and the current forward curve, which shows frac spreads of \$10 to \$12 per barrel, we expect a realized frac spread for the remainder of 2009 be the same as for the second quarter at approximately \$22 per

barrel. Additionally, we have hedged over 20 percent of 2010 exposed volumes at approximately \$24 per barrel.

Our Harmattan Complex has benefited from the investments made in 2008 as NGL production has increased through connecting gas supplies from new areas. We also see opportunities to increase production at other facilities. For instance, we expect that our Younger plant will be substantially full by the end of 2009 as strong producer activity in the surrounding areas increases volumes processed by 20 to 30 percent. We will continue to position our assets to benefit from increased activity as the market recovers.

Operating income from field gathering and processing was \$1.4 million in second quarter 2009, down from \$5.8 million in second quarter 2008. Operating income decreased due to lower volumes from reduced producer activity, including customers shutting in gas production in response to low natural gas prices.

Average throughput in the quarter was 475 million cubic feet per day, down from 554 million cubic feet per day in second quarter 2008. The 14 percent decline is attributable to lower producer activity in certain operating areas, natural decline, unplanned outages and producers shutting in gas due to low commodity prices. Well tie-ins for second quarter 2009 totalled 20, down from 64 in second quarter 2008.

In the short term FG&P business faces challenges due to lower producing activity and the negative impact that has on producer activity; nevertheless, we remain optimistic about the business over the medium and long term. We are seeing an increasing number of opportunities to grow the business through expanding or consolidating existing facilities and building new facilities to meet producer demand, especially in areas where there is significant drilling activity or where we expect drilling activity to pick up. We're working closely with senior gas producers and are focusing on the Montney and Doig play in Northeast BC and Northwest Alberta.

Energy Services reported operating income of \$2.6 million for the second quarter 2009 compared to a loss of \$900,000 in the second quarter 2008. The increase is the result of an adjustment to liabilities related to gas purchases and sales and higher gas transportation margins, partially offset by lower fixed-price gas and transportation sales. The Sarnia Storage Project is now on-line and contributing to earnings. We expect that it will provide about \$3 million a year in EBITDA.

We continue to expect 2009 to be another good year for our gas business. The impact of our 2008 and 2009 capital program combined with no scheduled extraction plant turnarounds and solid frac hedges in place will

contribute to 2009 operating income and help offset the challenges this business sees in the current economic environment.

Operating income in the power business was \$19.6 million in the second quarter compared to \$29.4 million in the same period last year. The decrease was due to lower revenue from power sold at spot prices and lower contributions from gas-fired peaking plants. This was partially offset by lower PPA cost including favourable rates received during the June outage and lower transmission cost.

The average Alberta power pool price in the second quarter was \$32 per megawatt hour, down about 70 percent from the same period last year. Our average power price received, which includes hedged and spot sales for both Sundance and the gas-fired peaking plant, was \$64 per megawatt hour. Consistent with our hedging strategy we have hedged two-thirds of 2009 Sundance generation at \$76 per megawatt hour. We've also hedged approximately 50 percent of our 2010 production at similar prices.

Our Bear Mountain Wind Park remains on schedule to be fully in service by this November. Four of the 34 turbines are installed and Bear Mountain is currently delivering power to the grid in British Columbia.

In November 2008 we submitted three run-of-river projects to BC Hydro's clean call for power and since then we have been waiting for BC Hydro's results to be announced. Last week the BC Utilities Commission unexpectedly rejected BC Hydro's long-term energy acquisition plan, potentially disrupting BC Hydro's planned process for awarding contracts. While this is disappointing, we believe that the BC Government's strategic emphasis on reducing greenhouse gas emissions combined with its desire to foster a vibrant renewable power industry will result in BC Hydro making commitments to secure long-term green energy contracts with large, strategically positioned, independent power projects such as AltaGas' Forrest Kerr Project. Because of this we remain committed to the development of Forrest Kerr and believe that the project has a high probability of moving forward despite the recent BCUC decision.

Our corporate segment reported a loss of \$4.6 million before unrealized gains on risk management. The operating loss decreased compared to second quarter 2008 because of unrealized gains on short-term investments as well as \$2.6 million in project development costs that were written off in the same quarter last year.

Excluding the impact of mark-to-market accounting we expect the corporate segment operating loss to be lower than 2008. We have undertaken initiatives to reduce general administrative expenses and as a result we expect operating and administrative costs in our corporate segment to be lower than 2008.

We expect 2009 to be a good year for AltaGas. We continue to take good care by following a straightforward business strategy and disciplined financing strategy. Our business is supported by stable operations, a diversified energy infrastructure base, and a disciplined risk management strategy. As we continue to grow we will remain focused on owning and operating long-term assets that provide stable cash flow.

With that I'll turn the call back to Sheena.

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### **Sheena McKellar, Investor Relations**

Thank you, Rick.

That completes the formal part of today's call. David, Rick and Debbie are now available to answer your questions.

Operator, I will now turn the call back to you for the Q&A.

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## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you. We will now take questions from the telephone lines. If you have a question and you are using a speakerphone, please lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. 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 Linda Ezergailis. Please go ahead.

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### **Linda Ezergailis, TD Newcrest**

Thank you. The updated views on your dividend policy in 2011 or likely dividend policy of the board was very helpful. Can you also maybe provide some colour on your latest thinking on what an appropriate capital structure for AltaGas might be as a corporation?

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

I'll speak to it. Depending on the asset mix as we go forward, it evolves, but I would say north of 50, probably near term 50-50, going up from there, assuming the asset mix that it makes sense to go higher.

**Linda Ezergailis, TD Newcrest**

Okay. And then your credit ratings, you're committed to a BBB or...?

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

Yes, we're committed to a BBB.

**Linda Ezergailis, TD Newcrest**

Okay, thank you. And then with respect to your CapEx increases, can you provide some colour for 2010 especially, as to what the nature of the projects are, how much of that might include co-stream, and then what factors would cause the \$200 million outlook to increase even further?

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

They're both on the gas and power side that we're looking. Some depends on regulatory outcomes like co-streaming. We think with the Nova MOU showing strong support there we're quite positive on that project.

A number of projects we're currently working on at the engineering phase with tier-one producers would require final engineering and then a regulatory process as well. So those are the types of projects and clearly that if all the projects we're working on with producers now go ahead we will be well above \$200 million.

On the power side we're looking at a number of gas-fired power generation opportunities and potentially some wind opportunities if successful in various bid processes for supplying wind power to utilities in the U.S.

**Linda Ezergailis, TD Newcrest**

And, just to be clear, the \$50 million increase for 2009, that's scope change, not any sort of inflationary pressure.

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

It is additional projects that we have developed over the year.

**Linda Ezergailis, TD Newcrest**

Okay. And then just another follow-up with respect to your capital projects: Your Sarnia storage, what is the latest outlook in terms of fundamentals and your thinking of, you know, how you might be contracting that going forward versus having maybe some proprietary activity?

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

This year we're basically sold for the storage year. 100 percent locked-in contract with a very credit-worthy party. In discussions with 2010 now with various parties and we're looking at doing a combination of staggered long-term/short-term storage there. Would we keep a small amount for ourselves? At this point we have decided not to, but we wouldn't rule it out going forward. But a large portion of it will be locked in.

**Linda Ezergailis, TD Newcrest**

Great. Thank you.

**Operator**

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

**Nima Billou, Bloom Investment Counsel**

Yes, good afternoon. Just looking at the investment on the FG&P side, David, you had mentioned part of it was due to the fact that you think producers are more stressed to raise cash and assets are going to come to market but are you also factoring in an ability to increase pricing power as activity resumes or are you assuming a fairly depressed level of activity on the processing side?

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

We're expecting that we're close to hitting bottom. What we are seeing though, especially in BC and Alberta, volumetric growth and need for infrastructure to be expanded or new build that's quite exciting and so on a volumetric basis we've become fairly bullish on the

Western Canadian Basin. We still remain a conservative view of price increases on the gas side. We think there's some room for it but we're not expecting significant price increases. We've also seen costs starting to get run out of the system so making projects more economic.

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**Nima Billou, Bloom Investment Counsel**

And, Rick, this is a question for you: What percentage of the contracts again has it increased with respect to cost recovery? It was close to the 50 percent mark; has that increased or has that flat-lined?

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**Richard Alexander, President & COO**

No, it's pretty stable at that level.

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**Nima Billou, Bloom Investment Counsel**

Okay. And that's all my questions for now. Thank you.

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**Operator**

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

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**Robert Catellier, Clarus Securities**

Just on the new potential dividend policy, it's still a year away so it's necessarily conditioned on the economic circumstances, but does your current thinking involve an improvement in power prices or frac spreads to get to that range?

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

No it doesn't. We've had this type of range for over 18 months in our planning horizon so it's been fairly consistent. It's more driven by the growth opportunities that we see in the near term and what we think would add significant value to unitholders.

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**Robert Catellier, Clarus Securities**

Okay. And just on the CapEx side again, you know, the degree of increase for the 2009 budget implies either you have a very good line of site on some projects or you may be considering potential acquisitions. Do you care to

provide any colour on where the opportunities might come from?

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

The increase is based on work with producers and working with them on engineering and developing and expanding existing field gathering and processing plants, and those type of agreements would be very traditional with our most recent types of field gathering and processing contracting.

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**Robert Catellier, Clarus Securities**

The difficulty I'm having with the statement is even if you filed the regulatory application today you'd be pressured to get any type of spending of that nature in, unless it's an outsourcing agreement where you're buying an asset in exchange for a contract.

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

Depending on what type of plant and sweet versus sour and how far down the road we are, I think you'll see some significant capital could be employed this year and online by the end of the year, early 2010.

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**Robert Catellier, Clarus Securities**

Right. And the 2010 budget does include Harmattan; has the budget changed for that?

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

In terms... Sorry?

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**Robert Catellier, Clarus Securities**

The Harmattan co-stream is in the 2010 budget?

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

We don't have a 2010 budget yet but clearly that's part of the capital that we expect to spend in 2010.

**Robert Catellier, Clarus Securities**

I thought we did have a 2010 budget.

Just on the timing of the 2010 power hedges, are those, the 50 percent of the power that's hedged, is that ratably throughout the year or has the front half of the year been hedged more than the latter half.

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

It's flat. Generally flat.

**Robert Catellier, Clarus Securities**

And finally, are you finding the gas stream at Younger is leaning up a bit as it fills? I know the composition of gas in the Montney can be quite variable but sometimes it's characterized as dry. Are you finding the gas stream leaning at all?

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

Randy?

**Randy**

No, some of the Montney play that's developed is actually fairly rich, so we haven't seen any difference in composition at Younger. And we actually see the future development to be fairly stable composition-wise.

**Robert Catellier, Clarus Securities**

Okay, thank you.

**Operator**

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

**Fai Lee, RBC Capital Markets**

Thank you. David, could you please comment on the implied payout ratio given your dividend range of \$1.10 to \$1.40? Is it close to the 60 to 70 percent you'd talked about before because it seems closer to 90 percent based on your current results.

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

Which payout ratio are you...?

**Fai Lee, RBC Capital Markets**

To net income. I think previously you mentioned about 60 to 70 percent of net income is what you expect to get.

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

We said that was our ongoing target. We may start a little higher and grow into it. Part of it is due to the significant growth opportunities we see but we also feel from a cash flow perspective we'll have a very attractive cash flow payout ratio as well over the near term.

**Fai Lee, RBC Capital Markets**

Okay. So the near term, the \$1.10, \$1.40 then sounds like that the payout ratio on a net income basis will be higher than 60 to 70, you know, head towards 60 to 70 at some point.

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

No, I don't think it's going to be a lot higher but, you know, time will tell as to the exact timing of projects and what power prices look like and frac spreads, so we feel very comfortable in all the scenarios we ran to have a dividend in that range.

**Fai Lee, RBC Capital Markets**

Okay. There's mention in the press release on the field gathering and processing of volume growth initiatives; I'm just wondering about the timing and how much that would contribute potentially.

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

Randy? Rick?

**Richard Alexander, President & COO**

Well the projects, we're talking about the same projects David was referring to earlier, things we're working with producers on for either new facilities or upgrading existing facilities, and those will see volumes start coming

on we hope, as David mentioned, either late this year or early 2010.

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

Those are all ones we're talking about right now are all gas behind pipe or in the well so it's not based on a significant new drilling, it's there.

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**Fai Lee, RBC Capital Markets**

Okay. So it's the same thing as...okay. And in the energy services there was a \$4.1 million positive impact on operating income due to reduction of liabilities related to natural gas transactions, could you maybe provide us with a little more colour on that and did that have a cash impact this quarter?

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

I'll just first say that we've talked about this and the potential of this as early as our year-end conference call, potential as an outlook and I'll pass it on to Debbie for the accounting and cash implications.

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**Debbie Stein, Vice President Finance & CFO**

So, Fai, it did have a cash impact and it relates to natural gas purchases and sales. As you can well imagine, there's a fair bit of volume that we move through and in managing the balance sheet we often have to reconcile balances and so through a reconciliation process we were able to firm up some of our liabilities on the balance sheet and the fallout was the \$4.1 that we took into revenue in Q2.

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**Fai Lee, RBC Capital Markets**

Okay. So it did have a cash impact. Thank you.

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**Operator**

Thank you. Our next question is from Matthew Akman from Macquarie. Please go ahead.

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**Matthew Akman, Macquarie Research Equities**

Thank you very much. I just wanted to ask a couple of key assumptions for the payout ratio in 2011 for the new

dividend. First I guess is for Debbie on what you anticipate your GAAP tax rate might be.

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**Debbie Stein, Vice President Finance & CFO**

Sorry, Mathew, can you ask the question again?

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**Matthew Akman, Macquarie Research Equities**

What might your GAAP tax rate might be in 2011?

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**Debbie Stein, Vice President Finance & CFO**

Oh, in 2011. Well the statutory rates we're assuming right now is around 25 percent and the effective tax rate would be just around 10 percent or a little bit lower than 10 percent, so I'm not sure what you mean by the GAAP—

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**Matthew Akman, Macquarie Research Equities**

When you say 10 percent effective, does that mean you'll be paying 10 percent cash tax or booking 10 percent?

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**Debbie Stein, Vice President Finance & CFO**

We'd be booking 10 percent.

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**Matthew Akman, Macquarie Research Equities**

Okay, thanks for that. And then when you look to 2011 do you have—I'm not sure if this is for Rick or someone else but do you have any power hedges for Alberta on the PPAs in place for 2011 at this time?

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**Richard Alexander, President & COO**

We do have a small amount, yes.

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**Matthew Akman, Macquarie Research Equities**

Small meaning 10 percent or less?

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**Debbie Stein, Vice President Finance & CFO**

In 2011? Yes. We have between 10 and 15 percent hedged out between 2011 and 2014.

**Matthew Akman, Macquarie Research Equities**

Okay, so presumably those were done at favourable prices relative to today's forward curve?

**Debbie Stein, Vice President Finance & CFO**

Yes.

**Matthew Akman, Macquarie Research Equities**

Is it possible that—well let me ask this first: in your outlook for 2011 when you set the payout ratio, what kind of Alberta power prices were you assuming?

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

We were looking at a number of scenarios consistent with current forward curves and various scenarios around power prices higher and lower, and frac spreads higher and lower.

**Matthew Akman, Macquarie Research Equities**

Is it possible that from a hedging strategy that you could hedge less going forward in light of, I guess, a couple things. One is that power prices seem to be depressed relative to replacement cost in Alberta and, two, with a lower payout ratio you can handle a little bit more cash flow volatility.

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

We would—if we diverted from our current strategy it would require us to go back to the board and justify why we think it's a prudent thing for our shareholders. So our limitation is that we would have to go back to our board and make sure that it's consistent with the best interest of our shareholders at the time.

**Matthew Akman, Macquarie Research Equities**

Okay. And then if I can just ask a quick question on the Harmattan co-stream project, can you just describe the regulatory approval process there? Where are you now and how do you see that unfolding kind of in major milestones?

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

Randy or Greg?

**Randy Toone, Divisional VP FG&P Operations**

Right now the ERCB is reviewing our application. Our communication with the ERCB is that they feel that a hearing will be this fall. Depending on the hearing, we're hoping to have approval as early as the end of the year, early 2010.

**Matthew Akman, Macquarie Research Equities**

Have they deemed the application to be complete from their perspective?

**Randy Toone, Divisional VP FG&P Operations**

Yeah, we're just going back and forth with information requests, but they're ready to schedule a hearing as early as this fall I think. The application has been filed.

**Matthew Akman, Macquarie Research Equities**

Okay. And then they'll just review it against the criteria that were established in the generic proceeding I suppose.

**Randy Toone, Divisional VP FG&P Operations**

Yep.

**Matthew Akman, Macquarie Research Equities**

Okay. Thank you very much.

**Operator**

Our next question is from Tony Courtright from Scotia Capital. Please go ahead.

**Tony Courtright, Scotia Capital**

Can you tell me whether it's still your intention once Bear Mountain is complete to do separate financing on that?

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

Debbie?

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**Debbie Stein, Vice President Finance & CFO**

We continue to monitor the project financing market, Tony, but we'll look at what our financing requirements are and what projects are coming on line before we actually make that decision. But it's still an option.

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**Tony Courtright, Scotia Capital**

And do some of your terms in your existing credit facilities limit the amount of project financing that you can incur without paying down those credit facilities?

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**Debbie Stein, Vice President Finance & CFO**

Yes they do, you know, just in normal terms that come with these facilities.

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**Richard Alexander, President & COO**

But there is enough flexibility to do a project financing on Bear if we choose to.

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**Tony Courtright, Scotia Capital**

But, was there not a limit of sort of a negative pledge other than for \$100 million? So if you do a project financing of greater than \$100 million you're sort of stealing from Peter to pay Paul because you're reducing your credit availability elsewhere?

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

With respect to the banks to doing MTNs, and we've already gotten through that in the second quarter when we did the \$200 million, so any project financing isn't... I think that's what you're maybe talking about and our bank facility the first 50 percent of the first \$200 million went to reduce our bank line.

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**Tony Courtright, Scotia Capital**

I realize that component has already transpired but I thought there was also essentially a negative pledge on your assets other than for a carve-out of up to \$100

million for PF, for project financing, so if you were to do more than that was there any benefit in doing more.

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

Jeremy?

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**Jeremy Baines, Treasurer**

Yeah, there's a couple different baskets in our credit facilities that we can use to do the project financing under. There is one, the \$100 million one that you are referring to, but there are other baskets in there as well that will allow to carve some of it. We have the flexibility to do project financing for Bear very easily under our existing credit facilities.

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**Tony Courtright, Scotia Capital**

Okay. You've mentioned two wind projects, Walker Ridge in California and Glenridge in Alberta; can you tell me where these are and are they bid into an RFP and if they were to be a go-ahead, how would you approach financing them?

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

Walker Ridge is in Northern California, not too far north of Sonoma Valley. The Glenridge is not too far from the Alberta/Saskatchewan border north of Medicine Hat. At this point we have looked at financing them straight on the balance sheet. No other plans have been made at this point.

And there is a process in California later in this month with respect to PG&E and SoCal, San Diego, Edison are looking for renewable power bids for 2010, I believe.

And with Glenridge it is an Alberta project and right now there's no PPAs in Alberta. We are looking at other structuring options with respect to that project.

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**Tony Courtright, Scotia Capital**

So that wouldn't be dependent upon, the Alberta one, not dependent upon an RFP so you could do a negotiated deal with a counterparty.

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

That's what we're looking at. Or various potential structures with future fixed pricing and those type of things. We haven't resolved the pricing in Alberta.

**Tony Courtright, Scotia Capital**

And how material are these projects and what sort of capitalization would be associated with them?

**Richard Alexander, President & COO**

Well each project is probably equal to or smaller than Bear.

**Tony Courtright, Scotia Capital**

So you finance on balance sheet. So you just live within your 50 percent capitalization of debt to equity?

**Richard Alexander, President & COO**

Yes.

**Tony Courtright, Scotia Capital**

All right. And then in terms of BC Hydro, you're still just waiting with bated breath even though the BCUC has slapped down BC Hydro? Or do you have any other insight?

**Richard Alexander, President & COO**

Well I'm not sure I would use that term but we are waiting to see what BC Hydro will announce and how that's affected by the BCUC decision.

**Tony Courtright, Scotia Capital**

And is there a timeline that you had expected BC Hydro to make an announcement and has that changed at all?

**Richard Alexander, President & COO**

Well the timeline has been somewhat fluid. I think we had been expecting that there might be some kind of

announcement in early September but there hasn't been any specific date set by BC Hydro.

**Tony Courtright, Scotia Capital**

All right. Thank you.

**Operator**

Thank you. We now have a follow-up question from Nima Billou from Bloom Investment Counsel. Please go ahead.

**Nima Billou, Bloom Investment Counsel**

David, you talked about just the forward outlook on power pricing; do you expect obviously a rebound driven more by an increase in natural gas prices or an increase on the demand side? In the past you had mentioned it's more depressed gas pricing that's leading to depressed power pricing than it is a question on the supply and demand balance.

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

Well there's two parts I guess. If I look at hedging and going out further it's more driven by gas price. Short term is more short-term demand, supply/demand that can drive prices in various directions. I think we will see a turnaround in demand in Alberta. I think we're forecasting in 2010 3 percent growth in GDP so that should help move forward. On the gas side we expect some firming in price but we're also seeing attractive heat rate. So generally, I would say we believe we're close to the bottom in this cycle and see more upside than downside.

**Nima Billou, Bloom Investment Counsel**

You've got 50 percent of the 2010 and, as mentioned before, 10 to 15 percent from 2011 to 2014; how often will you revisit hedging? Is it every quarter? Is it on a monthly basis?

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

We do it continuously, looking for opportunities, whether small volumes through our retail operation that can do some term length and as well as our conventional, so we're always looking at direct sales to counterparties as well as financial.

**Nima Billou, Bloom Investment Counsel**

Thanks very much.

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**Operator**

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

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**Fai Lee, RBC Capital Markets**

Just a question for Debbie: Debbie, you mentioned the effective tax rate in 2011 is going to be about 10 percent versus a statutory rate of 25 percent. What's behind the difference between the two?

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**Debbie Stein, Vice President Finance & CFO**

Sorry, Fai, as I got off the call with Matthew I was thinking about this. The GAAP tax is really the 25 percent. The 10 percent is a cash tax, just between 5 and 10 percent cash tax is what we're forecasting. So you'd be booking your GAAP tax in terms of your tax expense that you'd be carrying, it would be split between your current and your future.

**Fai Lee, RBC Capital Markets**

Yeah, okay, that makes more sense. Thanks.

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**Debbie Stein, Vice President Finance & CFO**

Sorry about that.

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**Operator**

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

Our next question is from Michael Simpson from Sentry Select. Please go ahead.

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**Michael Simpson, Sentry Select Capital Inc.**

Hi there. There has been some severe weather in Alberta; have any of your facilities or plants been affected by those severe storms?

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

Randy is shaking his head no.

One thing I'd like to add to the question about capital, the first question, Bear Mountain is clearly on budget and all the capital increases are increased project not cost overruns, so we've been able to deliver all our projects very close to or under budget. So thank you for the opportunity.

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**Michael Simpson, Sentry Select Capital Inc.**

Okay, thanks for answering the question.

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**Operator**

Thank you. Once again, if you have a question, please press star one.

There are no further questions. I'd like to turn the meeting back over to Ms. McKellar. Please go ahead.

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**Sheena McKellar, Investor Relations**

Thank you, operator. If anyone has any follow-up questions, please feel free to give me a call. My contact info is in today's release. Thank you.

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**Operator**

The conference has now ended. Please disconnect your lines at this time. Thank you for your participation.