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PRESENTATION

Operator

Good afternoon ladies and gentlemen. Welcome to the AltaGas Income Trust 2008 Second Quarter Conference Call and Webcast. I would now like to turn the meeting over to Ms. Diane Zuber, Manager of Investor Relations. Please go ahead, Ms. Zuber.

Diane Zuber, Manager, Investor Relations

Thank you, Anne. Good afternoon everyone. My name is Diane Zuber and I am the Manager of Investor Relations at AltaGas. Welcome to AltaGas' Second Quarter 2008 Conference Call.

David Cornhill, Chairman and Chief Executive Officer, will open with a few remarks regarding results for the quarter and will then discuss AltaGas' growth initiatives. Debbie Stein, Vice President, Finance and Chief Financial Officer, will review our financial results. Richard Alexander, President and Chief Operating Officer, will close the formal presentation with a discussion of our operating results for the quarter and outlook for 2008. We will then conclude the call with a question and answer session.

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 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.

It's now my pleasure to introduce David Cornhill, Chairman and Chief Executive Officer.

David Cornhill, Chairman & Chief Executive Officer

Thank you, Diane. Good afternoon and welcome to the second quarter conference call.

I'm happy to report that AltaGas had a strong second quarter. Our strong financial results reflect solid performance of our energy infrastructure business with assistance from strong commodity prices.

We reported net income of \$32.9 million or \$0.49 per unit. Excluding some one-time items reported in the second quarter of 2008 and 2007, net income was \$36.4 million. That is a 32 percent increase quarter-over-quarter. On a per unit basis, net income increased 13 percent to \$0.54.

At a high level, the strong second quarter performance was the result of our solid-base business; our new assets, which continued to perform strongly both operationally and financially; our continued favourable results from our effective commodity hedging and risk management mitigation strategies; and strong spot power prices and frac spreads in the quarter.

AltaGas' strategy is to grow our gas and power infrastructure business. We are driving this strategy forward and seeing the results. We are actively creating

opportunities to grow our businesses by increasing the profitability of our current assets; by developing new and complementary assets; and through acquisitions. Let me tell you about our growth.

Building upon the 70 MW of run-of-river development projects we have been developing, we recently announced the acquisition of NovaGreenPower. Included in this acquisition is the 195 MW Forrest Kerr project located in Northwest BC. This project is in the advanced stages of development and has secured a water license and environmental assessment certificates. Forrest Kerr fits into our growth plans. This significant addition to our renewable energy portfolio is one of the largest single location run-of-river development projects in North America. It is a large-scale project that will provide long-term stable returns for our power business.

The technical aspects of Forrest Kerr have been established by 40 years of water data, as well as an engineering study that supports the size and scale. There is strong government support for renewable power development in British Columbia and Forrest Kerr has a high level of support from communities that will be affected by it.

In addition to Forrest Kerr, NovaGreen is also pursuing three other development projects with a total potential run-of-river capacity of 130 MW. These projects are in the early-to-mid stage of development and are located in the same region as Forrest Kerr.

These run-of-river assets are expected to begin coming on stream in around 2012. We expect in the long-term these renewable power developments will be as significant to AltaGas as the existing Sundance PPA. AltaGas is committed to developing renewable energy projects. This commitment is driven by market demand for clean energy resulting from both regulatory and consumer preference. AltaGas' strategy is to be a leader to meet these demands.

The Bear Mountain Wind Park is the most developed of our renewable energy projects. Construction of the wind park continues to move forward on time and on budget. Our people are on site overseeing construction of the foundations for the turbines. To date, 15 percent of the foundation work has been completed with several foundations excavated and poured. The remaining foundations will be completed by the end of summer. The Wind Park is on track to be operational in November 2009, as scheduled.

We have acquired the remaining 45 percent of GreenWing Energy Development Limited Partnership for

100 percent ownership. We are actively working on 640 MW of mature wind development projects. AltaGas' renewable energy portfolio now includes 1,500 MW of wind power development, including the 100 MW Bear Mountain Wind Park. In total, AltaGas has approximately 1,900 MW of renewable energy capacity under development in western Canada and the western United States. These acquisitions demonstrate our commitment to prudently grow and diversify our energy infrastructure business.

We are growing the power business this year with the addition of gas-fired peaking capacity. We are currently operating 32.2 MW of gas-fired peaking capacity including the newly added 7.2 MW at our Bantry field gathering and processing facility. Another 7.2 MW will soon be on line at our Parkland facility for a total of 39.4 MW of peaking capacity. This increased peaking capacity will prove both energy and auxiliary services to the grid and partially backstop our PPA.

We continue to develop and pursue opportunities in our gas segments. We are continuing to build on the Taylor acquisition by capitalizing on opportunities to enhance our returns on these assets. In April we announced \$55 million worth of growth and efficiency initiatives at the Harmattan Complex. Several of these initiatives were completed during the turnaround that took place in May. We will continue to move forward with consolidating the Carstairs gas plant. We are awaiting regulatory approval and expect completion of the project by fourth quarter of this year, as planned.

We will spend \$12.5 million to upgrade a 12 KM section of the Ethylene Delivery System, or EDS. The upgrade will meet regulatory requirements associated with the increasing population density to maximize our ability to provide optimum service to our customers.

We remain focused on active gas-producing areas in northeast BC and northwest Alberta. The Pouce Coupe expansion is progressing and is currently in the regulatory approval stage.

We recently received regulatory approval from the Ontario Energy Board for the Sarnia Airport Storage Pool. Construction is scheduled to begin in the third quarter of 2008 and the Storage Pool will be coming on line in mid-2009.

We had previously announced \$150 million in capital expenditures for 2008 and a further \$250 million in 2009. Today we are increasing our capital forecast to \$225 million for 2008, mainly a result of the acquisition of NovaGreen and GreenWing, as well as the EDS

upgrade. We expect to finance a 2008 capital program from cash from operations, credit facilities, and proceeds from our DRIP.

Looking ahead to the rest of 2008, we are on track to be at the high end of our estimate, mid to high single digit growth in earnings per unit as our assets continue to perform well. This earnings growth is expected to spike significant scheduled turnarounds in our gas business this year. We expect earnings growth to continue in 2009 and 2010, as we add and enhance to our base business with projects like those at Harmattan, the Pouce Coupe plant expansion, the EDS upgrade. Bear Mountain and Sarnia Storage will come on line in 2009 and begin to add to earnings. In addition, we continue to see strong commodity prices for 2009 and continue to lock in frac spreads and power hedges for 2009.

I am happy to announce today AltaGas increased monthly distributions to \$0.18 per unit from \$0.175 per unit, or \$2.16 annualized. We remain within our target payout ratio of between 65 and 70 percent of funds from operations. This increase reflects the strong performance of AltaGas' base business and continued asset growth.

In June we had a very successful equity offering that resulted in AltaGas issuing an additional 4.4 million trust units at a price of \$26.20 per unit. The net proceeds of \$110 million from the issue were used to repay drawings on our credit facilities.

Before I turn the call over to Debbie I'll briefly touch on the transition to 2011 taxable environment. As you know, the federal government has released draft legislation regarding this transition. Draft rules are designed to allow income trusts to convert to public corporations without triggering consequences to either the trust or unitholders. We are assessing the proposed rules, but until legislation becomes law we will not be able to conclude on our next step. However, we believe that we are well positioned to convert to a corporation with significant tax pools.

AltaGas is ready for what's next. We are well positioned for strong performance in 2008 and for assets and earnings growth in 2009 and beyond. Our strong earnings outlook are complemented by asset growth in both the gas and power businesses that are currently under development. The future looks very bright for AltaGas.

Debbie will now discuss our financial results in more detail.

Debbie Stein, Vice President, Finance and Chief Financial Officer

Thank you, David, and good afternoon everyone.

Our second quarter net income was \$32.9 million or \$0.49 per unit, up from \$21.1 million or \$0.37 per unit in the second quarter last year. Excluding the unrealized after-tax loss related to risk management contracts of \$1.6 million and the after-tax charge related to project development costs of \$1.9 million recorded in second quarter of 2008, net income was \$36.4 million or \$0.54 per unit. Excluding the non-cash charge of \$6.5 million related to SIFT tax, net income in the second quarter of 2007 was \$27.6 million or \$0.48 per unit.

For the first six months of 2008, net income was \$70.5 million or \$1.06 per unit compared to \$45.6 million or \$0.80 per unit in the same period of 2007. Excluding the unrealized after-tax loss related to risk management contracts and the after-tax charge related to project development costs recorded in the first half of 2008, net income was \$73.7 million or \$1.11 per unit. Excluding the non-cash tax charge reported in the second quarter 2007, net income for the first half of 2007 was \$52.1 million or \$0.92 per unit.

Operating income in the Extraction and Transmission segment was \$18.8 million in the second quarter, more than double the \$8.8 million reported in the same period last year. Year-to-date, operating income in the segment was \$43.6 million compared to \$17.3 million during the same period last year. The increase was mainly due to the addition of new extraction and transmission facilities from the Taylor acquisition and higher frac spreads. During second quarter 2008 we had a turnaround at the Harmattan Complex, which cost approximately \$4 million in direct costs and lost revenue.

13 percent of our extraction volumes were exposed to market prices in the second quarter of 2008, adding \$13 million of net revenue. This contrasts with second quarter 2007 when just under 8 percent of volumes were exposed to frac spread and added \$2.5 million to net revenue. The large variance is the result of increases in both realized frac spreads, which were about \$10 per barrel higher, and higher volumes exposed to prices due to the additional assets from the Taylor acquisition. As a result of the extraction assets, our volumes exposed to market prices have more than tripled quarter over quarter. Our strategy is to hedge a portion of these volumes and we have locked in margins on approximately 60 percent of our exposed volumes for 2008 at more than \$23 per barrel. On a year-to-date basis, approximately 75 percent of net revenue in the

segment is underpinned by fee-for-service or cost-of-service arrangement.

Operating income for Field Gathering and Processing was \$5.8 million in the quarter, down from the \$6.4 million reported in the same period in 2007. Year-to-date operating income in the segment was \$10.1 million compared with \$10.6 million in the same period of 2007. The decrease in operating income was the result of natural declines and lower producer activity as well as the scheduled Rainbow Lake turnaround and unplanned downtime at two facilities. The addition of new facilities including RET and the two CBM facilities were added in late 2007, as well as higher rates helped to offset the decrease. The turnaround at Rainbow Lake resulted in \$0.6 million impact to operating income.

In the Energy Services segment, operating income decreased as a result of the gain recorded in the sale of non-core oil and gas assets in the second quarter last year as well as lower fixed price gas and transport sales. These decreases were partially offset by lower operating and admin costs.

Moving to the power business, second quarter 2008 operating income was \$29.4 million, an almost \$9 million increase over second quarter 2007. Year-to-date operating income in this segment was \$55.3 million compared to \$42.7 million for the same period in 2007. The growth in operating income in both the second quarter and first half of 2008 was due to higher power prices and volumes, a deferral account settlement from the AESO, and higher peaking plant revenues. These increases were partially offset by higher PPA costs, higher environmental compliance costs, and higher transmission costs.

In the Corporate segment we reported an operating loss of \$16.1 million in the second quarter, up from a loss of \$6.3 million in the same quarter of 2007. Year to date, Corporate has reported an operating loss of \$23.3 million compared to an operating loss of \$12.5 million in the first six months of 2007. The increased loss was the result of unrealized losses on risk management project contracts, project development costs expensed in the second quarter. Higher operating and administrative costs, as well as lower income, as we no longer report investment income from Taylor and it's now fully consolidated in the operating segment. The project development cost expense were as a result of a project commodity price exposures which could not be aligned with our low business risk model and commodity risk strategy.

I'll now touch on some consolidated numbers.

On a Corporate basis, amortization expense rose almost \$5 million to \$16.8 million in second quarter, mainly due to the Taylor acquisition and partially offset by the sale of our non-core oil and gas assets in the mid-2007. The year-to-date amortization expense was \$32.8 million compared to \$24 million during the same period last year.

Interest expense in the second quarter of 2008 was \$6.3 million, up from \$3 million in the second quarter last year. The increase was due to the higher average debt balance of \$615.9 million. In the second quarter 2007 the average debt balance was \$240 million. At 4.6 percent, the average borrowing rate was lower than the 5.3 percent for the same period last year. For the first six months of the year interest expense was \$13.3 million compared to \$6.1 million for the same period of 2007.

We reported an income tax recovery of \$2.2 million during the second quarter compared to a tax expense of \$7.1 million in the same period last year. For the first six months of 2008, income tax expense was \$800,000, compared to \$8.5 million in the same period of 2007. The decrease was primarily due to the \$6.5 million non-cash charge recorded in the second quarter of 2007 related to the tax on income trusts, as well as the tax impact of unrealized losses related to risk management contracts and higher income subject to tax. Of note is the adjustment made to the Q2 SIFT charge which was reported in Q3 07, reducing the amount from \$14.5 to \$6.5 million.

During the quarter invested capital totalled \$25.9 million compared with \$22.8 million in the same quarter of 2007. Growth capital of \$20.9 million was spent on the Bear Mountain Wind project, extraction and transmission facilities and FG&P facilities, as well as the of the new peaking plant equipment. The invested capital tables in our MD&A provide a detailed breakdown of our capital spending. During the first six months of 2008, invested capital totalled \$680 million compared with the \$30 million in the same period last year. The majority of that growth capital invested to date this year was of course the Taylor acquisition.

As David mentioned, our growth CapEx budget for 2008 has increased by \$75 million to \$225 million, and this will be financed with internal cash from operations, credit facilities, and DRIP proceeds.

Total debt at June 30th was \$504.3 million, up from \$221 million at year end but down from the \$640 million at the end of the first quarter. This resulted in a total debt to cap ratio of 36.4 percent versus 45.1 percent at March 31, 2008. This is significantly lower than the previous quarter and lower than our target ratio of the 40 to 45 percent as

a result of the debt repayment using the proceeds from our equity issue in early June.

We issued 4.4 million Trust units at a price of \$26.20 per unit during the quarter and this equity offering resulted in net proceeds of approximately \$110 million. As a result of this issue and the units issued for the Taylor acquisition, AltaGas has 68.3 million units outstanding at the end of the quarter. Consequently, the weighted average units outstanding for the quarter was 67.4 million, up from 57.2 million in the same quarter of 2007.

With respect to cash flows, funds from operations were \$50.6 million in the second quarter of 2008, up from \$39.2 million in the same quarter of 2007. The change was mainly due to the contribution from the Taylor acquisition and higher power prices.

Distributions declared in the first quarter were \$0.525 per unit, or \$35.7 million. Our payout ratio, which is based on funds from operations per unit, was 70 percent in the quarter, well within our target of 65 to 75 percent of funds from operations and below the 74 percent in the second quarter of 2007.

In July, Standard & Poor's revised its outlook on AltaGas to positive from stable and affirmed the BBB– long-term corporate credit senior unsecured debt rating. Their outlook revision reflected the efficient integration of Taylor and our strong earnings and funds from operations, which have outperformed their expectations.

Our strong balance sheet, commitment to our investment-grade rating, and financial flexibility position us for the continued growth and strong performance and support of our strong energy infrastructure business.

And with that I'll now turn the call over to Rick, who will discuss the operating results in our business for 2008.

Richard Alexander, President and Chief Operating Officer

Thank you, Debbie. Good afternoon everyone. Today I will complete our prepared remarks by highlighting the key operating results discussed in our second quarter report. I'll also discuss our outlook for the rest of 2008.

Our operating segment reported \$53.1 million in operating income, compared to \$37.5 million in the second quarter 2007. Year-to-date, op income delivered by our operations was \$107.9 million, compared to \$72.8 million in the first half of 2007.

The gas business represented 45 percent of total op income and 44 percent of the increase. Overall, our gas business had strong results, mainly due to the addition of assets from our recent acquisition and continued strong frac spreads.

Our Extraction and Transmission segment performed well in the second quarter of 2008, reporting \$10 million higher operating income compared to second quarter 2007. The addition of extraction and transmission assets from the Taylor acquisition accounted for primarily all of the increase. The scheduled Harmattan turnaround was completed on time and within budget during second quarter and cost approximately \$4.5 million in operating expense and lost revenue.

At \$27.61 per barrel, realized frac spreads in the second quarter were \$10 per barrel higher than the frac spread realized in the same period in 2007. While the majority of our extraction volumes are underpinned by long-term cost-of-service or fixed-fee arrangements, in 2008 approximately 12 percent are exposed to market prices. as part of our risk mitigation strategy and to lock in historically high frac spreads, AltaGas hedged a portion of these exposed volumes. To date we have hedged approximately 60 percent of the exposed volumes at over \$23 per barrel for the remainder of 2008 and approximately 60 percent at \$27 per barrel for 2009. We have also hedged approximately 15 percent of 2010 exposed volumes at over \$27 per barrel. The current forward curve indicates that frac spreads are between \$25 and \$30 per barrel for the remainder of the year and around \$25 per barrel for the next few years, which should continue to deliver strong results in our E&T business.

Results in the E&T segment are expected to continue to be strong for the remainder of the year. The segment has grown significantly with the addition of assets from the Taylor acquisition and is expected to contribute around 40 percent of business operating income this year.

2008 results will be tempered by several scheduled extraction plant turnarounds completed and outstanding for this year. The Harmattan turnaround was completed in second quarter. In third quarter, results will be impacted by planned turnaround at Younger and both Empress facilities. The total cost of these turnarounds will be approximately \$1.8 million in direct costs and lost operating income in the third quarter.

The Harmattan Complex was shut down on July 24th for several days following a fire in a natural gas fire heater. After assessing the damage and ensuring there was no risk, the Complex resumed operations on July 28th. The

Complex is currently gathering and processing gas at normal levels, while some extraction functions are temporarily limited. We expect that Harmattan will be fully operational by mid to late August.

There were no injuries or environmental damage during the incident. The fire damage will be covered by AltaGas' insurance policy and will not delay any of the initiatives we are currently pursuing at Harmattan. These projects are moving forward and are expected to increase volumes processed at this facility by around 30 percent by the end of the year. The financial impact of the incident is expected to be \$750,000 due to the insurance deductible as well as lost revenue, which is currently not expected to be material given the expected timing of the facility's return to service.

As David mentioned, we will be upgrading a 12 KM section of the ethylene delivery system. This \$12.5 million upgrade will be constructed during the fall and it's expected to be tied into the existing system by the end of the year.

Moving to the Field Gathering and Processing segment, second quarter results were slightly lower compared to the same period last year. Results were mainly impacted by downtime at several plants, including a scheduled turnaround at the Rainbow Lake facility as well as natural declines and lower producer activity. The decrease was partially offset by the impact of higher rates and the addition of new facilities.

Average throughput in the quarter was 554 million cubic feet per day, up 4 percent from the second quarter of 2007. Throughput was up due mainly to the addition of new facilities, including RET. The quarter was negatively impacted by 6 million cubic feet per day of gas that was shut in due to the scheduled turnaround at Rainbow Lake and 10 million cubic feet per day of gas that was shut in due to operational downtime at Clear Hills and Princess. The turnaround at Rainbow Lake cost \$3.5 million. Approximately three-quarters of the turnaround cost was recoverable. Well licenses increased quarter over quarter and we are seeing an increase in producer activity in AltaGas' operating areas. We expect to see throughput volumes increase above second quarter levels for the remainder of the year.

In 2008 AltaGas expects higher results from the Field Gathering and Processing segment, mainly due to the addition of RET, a full year of operations at Acme and Corbett Creek, and higher rates.

Moving to the smallest part of our gas business, results in Energy Services were down quarter-over-quarter. In

second quarter, Energy Services realized a one-time pre-tax gain of \$1.6 million as a result of the sale of non-core oil and gas production assets.

The Power business produced very strong results in the second quarter of 2008, due mainly to higher realized power prices. Our average power price received, which includes hedged and spot sales for both Sundance and the gas-fired peaking plants, was \$89 per megawatt-hour. This was up almost \$27 for the same quarter last year. Average Alberta spot prices were \$108 per megawatt-hour compared with \$50 per megawatt-hour in second quarter 2007, and our peaking plant also contributed \$1.6 million more quarter over quarter.

We will have added a further 14.4 MW to gas-fired peakers to our Power business by the end of August. The Peaking plants have been installed and are operating at our Bantry FG&P site and are being completed at our Parkland FG&P site. Both sites will be fully operational during third quarter. We expect that these gas-fired peaking plants will yield similar returns to our existing peaking facilities.

We continue to expect 2008 operating income from the Power Generation segment to increase from 2007 levels. We have hedged approximately two-thirds of the Sundance 2008 production at \$76 per megawatt-hour, \$10 per megawatt-hour higher than our 2007 hedge price. The current forward market prices have fallen in recent weeks along with our energy commodities but are still in the \$80 per megawatt-hour range for the remainder of 2008 and in the mid to high \$70 per megawatt-hour range for the next few years.

In the Corporate segment, operating loss is expected to be higher in 2008 than it was in 2007. This is mainly due to the acquisition of Taylor and additional costs related to activity to support AltaGas' growth strategy. To date, AltaGas has realized approximately \$2 million in cost savings of the \$8 million in normalized cost incurred by Taylor in 2007. The segment's revenue will decrease as a result of no longer reporting investment income from Taylor and to our decreased interest in AltaGas Utility Group Inc.

We are well positioned for what's next. Despite turnarounds in our gas business we had a strong second quarter. We expect to continue to deliver strong returns to our investors, maximizing the profitability of our existing assets, including the new assets from our recent acquisition, growing and diversifying our energy infrastructure base, and delivering value to customers.

We have a solid foundation of energy infrastructure assets diversified along the energy value chain and underpinned with long-life contracts. We have many opportunities to grow and enhance our current asset base and we are constructing and developing new assets that will add to the future earnings growth.

We are well positioned to convert to a corporation as we have substantial tax pools and expect to benefit from lower effective tax rates and lower payout rates as we reinvest for the future. And finally, our access to debt and equity markets provides us with financial capacity and flexibility and we are committed to our investment grade credit ratings.

And with that I'll turn the call back to Diane.

Diane Zuber, Manager, Investor Relations

Thank you, Rick.

That completes the formal part of our conference call this afternoon. David, Rick, and Debbie are now available to answer your questions.

Anne, I will now turn the call back to you for the question and answer session. Thank you.

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 wish to ask a question, please press star one on your telephone keypad. If you wish to cancel your question, you may 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. Thank you for your patience.

The first question is from Robert Catellier from Clarus Securities. Please go ahead.

Robert Catellier, Clarus Securities

I noticed you increased the hedge on the frac spread to 60 percent for 2008. That's higher than the previous guidance of 45 to 50 percent. I wondered if we can expect the 60 percent level to hold, especially in 2009 and 2010? Is this the new level or will you move it around between 45 and 60 percent over time?

Richard Alexander, President and Chief Operating Officer

Well we don't specifically have a level, Rob, that we will target. It will be a bit opportunistic. But I think generally we will not exceed levels far above 60 percent. So I can't assure you that we would—we are at 60 percent now for 08 and 09, but I can't tell you that we will or will not get to 60 percent for 2010 or beyond. But we would likely not go much higher.

Robert Catellier, Clarus Securities

Okay. And can you quantify the situation at the Princess and Clear Hills situation, when we can expect those facilities to resume normal operations?

Richard Alexander, President and Chief Operating Officer

Actually at this point all volumes are being processed at both facilities. At Princess we've redirected those volumes and they're just at Bantry.

Robert Catellier, Clarus Securities

Okay. And at Harmattan, the tech says \$4 million for the turnaround and I think, Rick, you mentioned \$4.5 million. So if you can clarify the amount there.

Richard Alexander, President and Chief Operating Officer

It's \$4 million.

Robert Catellier, Clarus Securities

\$4 million. And the \$750,000 for the fire damage will be a capital item as opposed to an expense in Q3?

Richard Alexander, President and Chief Operating Officer

I believe it'll be expensed. And then the lost revenue obviously will be expensed.

Robert Catellier, Clarus Securities

And can you explain the nature of the project that was written off in the quarter?

David Cornhill, Chairman & Chief Executive Officer

It's a project that we are working on and we're bound by confidentiality because it's still moving forward. We like the project, we like the engineering, but we just couldn't resolve the commodity price risk associated with the design of the project, so we decided that it was better to not proceed because it was not consistent with our strategy.

Robert Catellier, Clarus Securities

Is it a gas or a power project?

David Cornhill, Chairman & Chief Executive Officer

I can't, I won't go any further on that.

Robert Catellier, Clarus Securities

Okay. Just on the corporate loss during the quarter, there was a number of one-time items; I'd like to know what the normalized number is for the quarter, in your opinion, and what additions we can expect for the acquisition of NovaGreen and the additional investment in the GreenWing.

David Cornhill, Chairman & Chief Executive Officer

I'll ask Debbie to go through the normalized numbers and then I'll talk about GreenWing and NovaGreen.

Debbie Stein, Vice President, Finance and Chief Financial Office

So if you take the 07 numbers you'd have to normalize for Taylor investment income. We had recorded about \$3 million of investment income in Taylor in 2007. And then we'll have the incremental charge for the development project of \$2.6. And then the run rate that we acquired with the Taylor acquisition is about \$6 million. So if you take 07 and you layer those increments on, you'll get to a

relatively close number on what we expect the run rate to be.

Robert Catellier, Clarus Securities

And I think the risk management loss is in there as well, pre-tax?

Debbie Stein, Vice President, Finance and Chief Financial Office

Yes. We don't budget that, as you would expect, Rob. You know, at the end of Q2 we had some high frac spreads and that's what drove the majority of the number.

Robert Catellier, Clarus Securities

Yeah, we look at it before that so I'm just trying to get to the number before the risk management.

Debbie Stein, Vice President, Finance and Chief Financial Office

Yeah, so you'd take the risk management number out of there to normalize.

Robert Catellier, Clarus Securities

Okay. And, David, you were going to comment on the increase from NovaGreen.

David Cornhill, Chairman & Chief Executive Officer

Yeah, NovaGreen at this point will not have a material impact on earnings, because we're in the project development stage, as well as GreenWing has nothing in the 2008/2009 operational window to start generating revenue.

Robert Catellier, Clarus Securities

So just on the Forrest Kerr project, what are some of the milestones that have to be accomplished in the next couple years before you can start talking about some of the major items for project economics?

David Cornhill, Chairman & Chief Executive Officer

We would finalize all the construction costs, get a closer forecast there, final power price assumptions, and at that point, final environmental certificate to construct, so at that point we'd be ready to move.

Robert Catellier, Clarus Securities

Okay, thank you.

Operator

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

Tony Courtright, Scotia Capital

If I could just follow on the questions relative to NovaGreen and the Forrest Kerr project, what's the timing in terms of the next call for power? Will it be bid into that?

David Cornhill, Chairman & Chief Executive Officer

We're reviewing our options now. We could be ready to bid in for 2008.

Tony Courtright, Scotia Capital

All right. And is there a requirement for you to incur to the cost of transmission?

David Cornhill, Chairman & Chief Executive Officer

There is some costs of transmission that we expect to incur, but there's also a regional transmission development opportunity there as well. So we have some transmission costs in our forecast.

Tony Courtright, Scotia Capital

All right. Do you want to elaborate or just leave it at that?

David Cornhill, Chairman & Chief Executive Officer

I actually can't at this point.

Tony Courtright, Scotia Capital

Okay. In terms of Forrest Kerr, you have managed to obtain the development team from NovaGreen has come aboard. Is that correct?

David Cornhill, Chairman & Chief Executive Officer

Yes.

Tony Courtright, Scotia Capital

Is there any similar transfer of development skill set with GreenWing?

David Cornhill, Chairman & Chief Executive Officer

Not directly at this point. There may be some people coming over in a relationship but not the head of GreenWing.

Tony Courtright, Scotia Capital

Right. So what have you actually acquired with GreenWing then?

David Cornhill, Chairman & Chief Executive Officer

We've acquired 45 percent interest in the partnership with a number of development land, acquisition data and projects.

Tony Courtright, Scotia Capital

So data and sites that you might have options on. How do you see yourself being able to pursue those? Do you need to staff up with wind development people?

David Cornhill, Chairman & Chief Executive Officer

We have some internal expertise that we've developed over the last two and half years working on the wind whose taking the lead. We're looking at what additional

staff requirements we need but at this point our internal staff is running with it.

Tony Courtright, Scotia Capital

During the quarter there was, relative to Sundance, a requirement for it to vend power as a backstop to another generator. Can you indicate for what length of time this backstop sales arrangement extended?

Debbie Stein, Vice President, Finance and Chief Financial Office

It ended in May. I don't have the exact dates, Tony.

Tony Courtright, Scotia Capital

Yeah, I read that it ended in May, but I don't know when it began, other than in Q2.

Richard Alexander, President and Chief Operating Officer

I can't remember the exact date either, but I think it started in—don't quote me on this but I think it started in March. Middle of March is what my recollection is.

Tony Courtright, Scotia Capital

All right. Could you outline just for modelling purposes and to clarify what your extraction volume expectations are for Q3 or the balance of 2008 and then for 2009 vis-à-vis the NGL volumes?

Richard Alexander, President and Chief Operating Officer

Those volumes would be—I don't have the exact volumes at my fingertips so we'd have to get back to you with exact numbers, and I'm sure Diane could do that, but it would be slightly higher than what you saw in the second quarter, but not by a lot.

Tony Courtright, Scotia Capital

I mean as they were affected by some turnarounds, so you have some additional turnarounds in—

Richard Alexander, President and Chief Operating Officer

But there weren't a lot of volumes at Harmattan and that was the only plant that had the turnaround affecting the second quarter results.

Tony Courtright, Scotia Capital

Right.

David Cornhill, Chairman & Chief Executive Officer

Tony, there's also seasonality in our volumes, so you'll see the first and fourth quarter as the highest.

Tony Courtright, Scotia Capital

All right. Just in terms of the hedging levels, you indicate where the forward curves are. Do you want to shed any light on what the actual spot levels of NGL margins are that you're realizing on the unhedged portion? Where are they currently?

Richard Alexander, President and Chief Operating Officer

Well right now the current frac spread is in the \$30 to \$35, close to \$35.

Tony Courtright, Scotia Capital

And your hedging is being undertaken at slightly under \$30. \$27 or somewhere in that order.

Richard Alexander, President and Chief Operating Officer

Yes. There's obviously, as you know, there's a difference between the spot and forward curves.

Tony Courtright, Scotia Capital

And it remains your preference to hedge those volumes as opposed to enjoy these perhaps unpredictable very high levels.

Richard Alexander, President and Chief Operating Officer

It does because, as you pointed out, it's unpredictable. So as part of our risk mitigation strategy we would like to have a higher degree of certainty to our future income.

Tony Courtright, Scotia Capital

And just one last question. It's in terms of distribution policy. You've increased distributions by about 3 percent. You indicate that you're well positioned to convert to a taxable corporation with tax shield. I would anticipate that if you're going to mark yourself against comparable taxable equity issuers you might need to reconsider the level of our dividends once you're a taxable corporation, so I'm just wondering what the motivation is to increase cash distributions now given you have about 20, something like 28 months before conversion deadline.

David Cornhill, Chairman & Chief Executive Officer

I'll take that one. It's, from my perspective, a tough decision whether you hold them flat or increase them as we have, and we felt that with the strength of our performance of our assets that it was prudent to share some of that, even though we saw as we were at the low end of our target at this point. So we felt there is a trade-off between current unitholders and long-term and we felt it was more appropriate to do our modest increase that we did of 3 percent.

And that's a call that the board made feeling comfortable that we will revisit it next year, as we do annually, and see where we position ourselves. But we just felt with the strength that we saw in 2008, 2009, and even into 2010 that we were well positioned to easily payout this type of, ah, \$2.16 per unit comfortably, very easily, so that's why we made the modest increase.

Tony Courtright, Scotia Capital

Does the same concern or consideration for current unitholders versus long-term unitholders apply to any elective deductions such as capital cost allowance? Are you husbanding those? Are you take—are you allowing maximal amount of non-taxable distributions?

David Cornhill, Chairman & Chief Executive Officer

Well a lot of our structure is below a corporate, so we can't flow those through, so we have a high proportion that is interest income due to the...we were a corporate beforehand. So that's why you have seen some of the impact. We look to balance, we tried to balance the interest of long and short term and maximizing unitholder value as best we can.

Tony Courtright, Scotia Capital

Great, okay. Those are my questions. Thank you.

Operator

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

Linda Ezergailis, TD Newcrest

Thank you. David, perhaps you could clarify a comment that you made in the preamble related to your renewable strategy. I believe there was some reference to equalling Sundance PPA in magnitude. What sort of timeframe are you looking at doing that and is that on a net operating income contribution basis or an asset mix? Or how are you measuring that?

David Cornhill, Chairman & Chief Executive Officer

I was more looking at when you look back at PPA and the valuation creation I look at the Forrest Kerr asset that will be a 40-year hydro asset with a very strong water resource that in the timeframe of the next 10 years in that developed it will create huge value for the corporation, as has the PPA, and clearly part of the strategy is that cash flows being generated from the PPA are being reinvested in longer-term assets that provide very strong cash flows over a long period of time. so it's just from when you look back in 2015 or 2020 at AltaGas and look at the assets that we're developing through this acquisition, they will have same import that people place on the PPA today.

Linda Ezergailis, TD Newcrest

So should we be looking at that on a return on invested capital or...?

David Cornhill, Chairman & Chief Executive Officer

Clearly the capital will be higher, the returns slightly lower, but the risk profile will be lower and the life of the assets will be much longer.

Linda Ezergailis, TD Newcrest

Okay. And then how do you see the composition of your company, either again on an asset basis or a net operating income basis, in 5 years, in 15 years, you know, power, renewables, versus your traditional gas gathering and extraction and transmission business?

David Cornhill, Chairman & Chief Executive Officer

We have targeted a balanced portfolio over the next five years between our power business and our gas business. I can say that at this point we do have more long-term projects on the power side of our business than we do currently on the gas side, so visibility is better on our power side on potential development projects right now than on the gas side, but our stated approved strategy at this point is 50/50.

Linda Ezergailis, TD Newcrest

In five years.

David Cornhill, Chairman & Chief Executive Officer

Yeah.

Linda Ezergailis, TD Newcrest

Net operating income, assets, or both?

David Cornhill, Chairman & Chief Executive Officer

We look at it on an operating income basis at this point.

Linda Ezergailis, TD Newcrest

Okay. And what are you seeing now in terms of consolidation opportunities in the Field Gathering and Processing? Are there more assets coming up for sale or not?

David Cornhill, Chairman & Chief Executive Officer

We have seen some discussions, larger potential acquisitions are clearly out there, on the small side it's primarily co-development projects that we're seeing with producers in new areas that we can build a larger facility to tie in a number of producers and that's what we've been working on. We haven't seen as many one-off plant acquisitions right now, but we're working on consolidation as well with producers to consolidate working interest to create more efficiencies. We're doing a lot of that right now.

Linda Ezergailis, TD Newcrest

Okay. And then for your capital budget for 2008, your \$225 million number, does that include sustaining capital and admin capital? And should we still be looking at run rates in the range of \$6 to \$7 million for sustaining capital and \$3 to \$4 million for admin capital?

David Cornhill, Chairman & Chief Executive Officer

The \$225 does not include the admin and the sustaining and those estimates aren't materially different on the admin and the sustaining. I'd say admin was \$4 to \$5 probably and sustaining is around \$6.

Linda Ezergailis, TD Newcrest

Okay. And final question, just a clarification on your earnings per unit. Off of what base, if you can remind us, are you working on, and then can you just please explicitly specify what you're excluding and including in your numbers in terms of tax, mark to market adjustment, program development, etcetera?

David Cornhill, Chairman & Chief Executive Officer

I'll pass that one on to Debbie.

Debbie Stein, Vice President, Finance and Chief Financial Office

So it would be based on the 190 base from 2007 adjusted for the SIFT in, ah, sorry, the BD cost and FI.

Linda Ezergailis, TD Newcrest

BD and FI. And then in 2008 your...?

Debbie Stein, Vice President, Finance and Chief Financial Office

So in 2007 it's based on the 190. I don't recall whether the 190 is including or excluding the SIFT, Linda, so we'll have to go back and look at that, but in 2008 you'd adjust for the one-time BD and you'll take out FI as well.

Linda Ezergailis, TD Newcrest

Sorry, FI being...?

Debbie Stein, Vice President, Finance and Chief Financial Office

Financial instruments.

Linda Ezergailis, TD Newcrest

Financial instruments. Thank you.

David Cornhill, Chairman & Chief Executive Officer

So in second quarter a reported \$0.49 per unit, which included both BD and FI, goes to \$0.54. But the \$0.54 also included all the turnaround costs.

Linda Ezergailis, TD Newcrest

Okay, thank you.

Operator

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

Matthew Akman, Macquarie

Hi. Thanks very much. Can you guys comment on the Alberta power market going forward and how you see pricing in your hedges beyond this year? And in

particular also whether you see the market getting or gaining depth for forward price.

Richard Alexander, President and Chief Operating Officer

Well in terms of going forward, we did talk in the script here about the current forward curve at about \$80 for the balance of this year and \$75 to \$80 going forward. We're not seeing a lot of increase in depth in terms of players or liquidity. It's been pretty consistent over the last 18 months. In terms of putting our hedges on, we still have the stated objective of being two-thirds hedged at the end of this year for 2009 and we're working towards that goal.

Matthew Akman, Macquarie

Are you seeing additional depth in the forward market, Rick, or is it still sort of 12 to 18 months out?

Richard Alexander, President and Chief Operating Officer

It's still about 12 to 18 months out.

Matthew Akman, Macquarie

Okay. And then separately, do you guys see the potential acquisition of TransAlta or any ownership changes there having any affect on your PPA contracts? Would you take a view on the change of ownership there? Would it matter to you? Any comments there please.

Richard Alexander, President and Chief Operating Officer

No, at this time we don't see any material change.

Matthew Akman, Macquarie

So if there was a change in ownership of the company, it wouldn't change your view on those contracts, their profitability? You wouldn't have a positive or negative view one way or another if it went to an approval process for a change in ownership of those assets?

Richard Alexander, President and Chief Operating Officer

That's correct.

Matthew Akman, Macquarie

Okay. Thanks very much. Those are my questions.

Operator

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

Chris Bolton, BMO Capital Markets

My first question was just about Bear Mountain. You talked in the past about maybe selling down your ownership interest and I'm just wondering what the status or process is around that.

David Cornhill, Chairman & Chief Executive Officer

We're in discussions with three or four companies right now about acquiring pieces of Bear Mountain. We've been focused on developing it. We feel comfortable with the project and we're actually reviewing and reducing the risk of the project as we're hitting our milestones on construction and containment of capital. So we're quite comfortable now and we'll be looking at still selling down some of it over time.

Chris Bolton, BMO Capital Markets

All right. And in terms of the Field Gathering and Processing segment, I know you've been trying to increase the amount of contracts that have cost recovery. Can you just give an update on how that's going or what percentage are cost recoveries at this stage?

Richard Alexander, President and Chief Operating Officer

Right now we're sort of in the mid to high 40 percent range. So we are still moving forward. And of course all new contracts have flow through cost structure.

Chris Bolton, BMO Capital Markets

Right. And perhaps I missed it on the call, but do you have the number of wells you tied-in in the Field Gathering and Processing segment this quarter?

Richard Alexander, President and Chief Operating Officer

It was 64. And, you know, we're hopeful that it was seasonally low because of the weather. I mean for those of you who weren't in Alberta during May and June, it seemed to rain here virtually every day and it impacted the producers ability to get rigs on, completion rigs on to tie-in wells as well as impacted construction sites in terms of ability to get heavy equipment in. So we're hopeful we'll see a pick up in that in Q3.

Chris Bolton, BMO Capital Markets

Right. And do you know what it was in Q2 of 07?

Richard Alexander, President and Chief Operating Officer

80.

Chris Bolton, BMO Capital Markets

80. Okay. And obviously SemGroup is having Chapter 11 in the U.S. at least; do you see that as any risk or any opportunity for you in either energy services or any of the other businesses?

Richard Alexander, President and Chief Operating Officer

Well we're not seeing any material risk for us as a result of that. Whether or not there's an opportunity remains to be seen.

Chris Bolton, BMO Capital Markets

All right. And my last question was just in terms of the \$2.6 million project development charge, that was a cash cost in the quarter, is that correct? I.e. operating cash flow was lower than it would have been otherwise.

David Cornhill, Chairman & Chief Executive Officer

It was a cost over a period of time.

Chris Bolton, BMO Capital Markets

All right. So did you, sorry, you were capitalizing it in the past and then expense sort of rolled off—

David Cornhill, Chairman & Chief Executive Officer

I believe it was about nine months of project time.

Chris Bolton, BMO Capital Markets

All right. So you were capitalizing it over that nine months and then sort of wrote it off or expensed it in Q2. Is that...?

David Cornhill, Chairman & Chief Executive Officer

That's correct.

Chris Bolton, BMO Capital Markets

All right, those are all my questions. Thank you.

Operator

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

Fai Lee, RBC Capital Markets

Thanks. I just had a question regarding the frac spread and your ability to increase the percentage in 2010. Is there any limiting factors, say, if you want to go from 15 percent to 16 percent at this time?

Richard Alexander, President and Chief Operating Officer

No, there's sufficient market liquidity to do that, it's really about being opportunistic around what price we're willing to lock in.

Fai Lee, RBC Capital Markets

So are you expecting frac spreads to possibly be higher than \$27 a barrel in 2010?

Richard Alexander, President and Chief Operating Officer

Well I don't know if I would say expecting. I guess if we knew we wouldn't necessarily hedge, or would, but we're just trying to be opportunistic. The market is very volatile. As you know, the prices of oil and gas have come off rather quickly here and we're just trying not to be overly reactive.

Fai Lee, RBC Capital Markets

Okay. And I'm just looking in the disclosures, the way you've hedged your frac spreads is primarily through swaps there's no other contracts to hedge frac spreads?

Debbie Stein, Vice President, Finance and Chief Financial Office

Sorry, what's the question, Fai?

Fai Lee, RBC Capital Markets

I'm just wondering the methodology you're using to hedge the frac spreads. Looking at your disclosure it looks like it's swaps with propane, butane, oil and gas.

Richard Alexander, President and Chief Operating Officer

Yes, it's specific to the commodity.

Fai Lee, RBC Capital Markets

Okay. And there's no other, let's say, forward contracts or anything like that.

Debbie Stein, Vice President, Finance and Chief Financial Office

Not on the frac hedges, no.

Fai Lee, RBC Capital Markets

Okay. All right. And on the distribution increase, I'm just wondering if you didn't increase your distribution would there be any potential tax issues just with respect to your structure?

Richard Alexander, President and Chief Operating Officer

No.

Fai Lee, RBC Capital Markets

Thank you.

Operator

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

Robert Catellier, Clarus Securities

Just a follow up on the EDS project...I noticed recently there was reports of an ethylene leak at Edmonton Fort Saskatchewan and now there's an additional investment going into EDS, so that's purely coincidental that there were reports of a leak at that time and so in other words this is not a leak related to the EDS.

Richard Alexander, President and Chief Operating Officer

Coincidental.

David Cornhill, Chairman & Chief Executive Officer

Yeah. We've been working on a project for many months.

Robert Catellier, Clarus Securities

And you've mentioned it'll have similar rates or return to the existing agreements.

Richard Alexander, President and Chief Operating Officer

Yes.

Robert Catellier, Clarus Securities

Okay, thanks.

Operator

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

Diane Zuber, Manager, Investor Relations

Thank you very much everyone. If you have any follow-up questions, please feel free to give me a call. My direct number is 403-691-7102. Thank you.

Operator

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