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PRESENTATION

Operator

Please be advised this conference call is being recorded. Good afternoon, ladies and gentlemen. Welcome to the AltaGas Income Trust 2006 fourth-quarter conference call and webcast.

I would now like to turn the meeting over to Mr. Marshal Thompson. Please go ahead, Mr. Thompson.

Marshal Thompson - *AltaGas Income Trust - SVP, External Relations and Corporate Risk*

Good afternoon everyone, and welcome to AltaGas's fourth annual -- sorry -- fourth-quarter and year-end 2006 conference call. I am Marshal Thompson, Senior Vice President External Relations and Corporate Risk, and I will be your moderator.

David Cornhill, Chairman, President, and Chief Executive Officer, will begin with a few remarks on results for the quarter and year. And he will discuss AltaGas's outlook for 2007. Richard Alexander, Executive Vice President, Chief Operating Officer and Chief Financial Officer, will then discuss our operational and financial results. We will conclude with a question-and-answer session.

Before we begin, I remind you that certain information presented today may constitute forward-looking statements. Such statements reflect the trust's current expectations, estimates, projections, and assumptions. These forward-looking statements are not guarantees of future performance and are subject to certain risks, which could cause actual performance and financial results in the future to vary materially from those contemplated in the forward-looking statements. For additional information on these risks, please see the trust's Annual Information Form under the heading "Risk Factors." David?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

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

Fourth-quarter net income was $27.3 million or $0.49 per unit, up from $26.4 million or $0.48 per unit in the fourth quarter of 2005. The growth in net income was due to strong power generation operating performance, enhanced by higher product prices received on power sold and lower transmission pumps, solid extraction and transmission performance with higher extraction volumes processed and frac spreads was higher in the fourth quarter of 2005 and lower interest expense.

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

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

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

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

AltaGas's strategy is to have a balance of hedged and open positions in its power portfolio, which has been very effective. We have achieved our target of being approximately two-thirds hedged for 2007. We expect to continue to see strong power prices in Alberta as a result of continued economic and power demand growth and a lack of significant new additional plant capacity in the mid-term.

Current forward market prices are in the high $70 per megawatt hour in 2007. We currently expect the power segments to perform at 2006 levels.

In the extraction and transmission segment, we anticipate that our long-term contracts will continue to generate stable core earnings in 2007. The base extraction business will grow due to the additional volumes from the EEEP-enhanced ethane recovery project and the increased interest in one of the Empress plants.

With the growth in our extraction process volumes, our volumes exposed to frac spread will grow to 7% of our extraction volumes. Based on current natural gas and natural gas product-priced forecasts, we expect frac spreads to decline from historic levels in 2006, however remain above long-term averages.

On the expansion front, one of the advantages AltaGas continues to have in its ability to meet producers' needs is to quickly -- and in innovative ways. The 18 million cubic feet per day Orion gas transmission pipeline, which is an extension of the Cold Lake system, is an example. The project includes pipeline expansion and delivery of 17,000 GJs per day of gas to BlackRock, a Shell subsidiary.

It also includes modifications to AltaGas's field gathering and processing and transmission systems in the area, which will enable AltaGas to divert gas to the BlackRock facility and reduce overall Cold Lake system compressor requirements. The pipeline expansion will be completed in the first half of 2007, and this project is on schedule and on budget.

We saw a rapid slowdown in producer tie-in activity in the last two months of 2006. We believe that proposed changes in federal tax law, concerns about soft natural gas commodity price and high service costs were a cause for the slowdown. As a result, field gathering and processing segment saw lower process volumes for the year and fourth quarter.

The decline in process volumes was primarily a result of lower processing plant throughput in the northern district. Volumes processed in our Southern and Central plants remained flat for 2006. Field gathering and processing performed at close to 2005 levels as a result of adding facilities, increased processing rates, and a move to flow through operating contracts. Rick will discuss this in greater detail.

We're focused on the profitability of the field gathering and processing business and expect to see margin expansion in this business to offset any softness in throughput. AltaGas expects that a lower price environment and reduced producers' access to capital markets will lead to continued opportunities to expand, build, and acquire processing facilities.

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

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

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

Rick will now discuss in details our operation and financial results.

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

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

We overcame these hurdles as a result of strong power prices, exceptionally high frac spreads and lower interest expense and tax rates. We did, however, begin to see the challenges of lower producer activity and declines in the field gathering and processing segment.

Contrary to what we expected three months ago, well tie-ins did not increase as much as we had anticipated. They were down to 84 from 128 in the fourth quarter of 2005 and to 384 for 2006 as a whole, down from 456 in 2005. We expect the tie-ins and drilling will continue to be lower until gas prices firm up and that our volumes processes will be impacted.

Despite the lower volumes expected, AltaGas anticipates that its strategy to increase the flow-through of operating cost to increase volumes from our new facility and our take-or-pay provisions will mitigate the impact of lower tie-ins and natural declines. Average throughput in the quarter was 549 million cubic feet per day, down 24 million cubic feet per day from levels in the fourth quarter of 2005.

Average utilization declined to 54% from 60% in the fourth quarter of 2005. The decline in utilization was primarily due to lower throughput of existing facilities as a result of natural declines and the recent slowdown in producer drilling and well clients. 1 percentage point of the decrease was due to the fact that licensed capacity was 13 million cubic feet higher than throughput capability built at two new plants.

The new Princess and Clear Hills plants operated at 56% and 68% respectively during the quarter, but exited the quarter at 65% and 80% which was close to 100% of throughput capability. From a throughput perspective in the [Shower] or South district, the new Princess facility added 11 million cubic feet per day of throughput compared to the fourth quarter of 2005. This partially offset the impact of natural declines, lower producer activity and operational disruptions, resulting in fairly flat volumes. Throughput in the district decreased by 7 million cubic feet per day or 2%.

In the North district, volumes processed decreased by 17 million cubic feet per day or 7%. The new Clear Prairie and Clear Hills gas plants increased throughput by 9 million cubic feet per day in the quarter. This increase was more than offset by natural declines, severe winter weather in November which froze off producer wells and upstream operator issues which curtailed volumes at Rainbow Lake and [Anti] Creek.

In addition, the Marten Creek area, which is a winter-only axis drilling area, saw volume declines of 15 million cubic feet per day as a result of last year's drilling program being less successful than anticipated. We believe that despite the declines that took place in the fourth quarter, the North district will continue to experience high producer activity and potential opportunities to increase throughput.

Operating income in the field gathering and processing segment was $7 million in the quarter compared to $7.6 million in the final quarter of 2005. Operating income increased by $1.4 million as a result of new facilities added in late 2005 and in 2006 and by $0.6 million due to higher rates. These increases were the direct result of AltaGas's strategy to manage the risk of volume declines by adding new facilities, implementing rate increases, passing more [comps] through each producer, and ensuring that most new plants have take-or-pay commitments.

The increases in the quarter were offset by $1.2 million due to lower throughput, $600,000 due to the write-down of goodwill related to a non-core investment, and $900,000 of higher amortization expense. The 2005 operating income included $1.5 million take-or-pay revenue, which was mostly offset by the $1.4 million in corporate costs charged to the segment in fourth quarter 2005.

In 2006, these costs are now included in the corporate segment, but the 2005 costs were not reclassified. The end result was flat operating income excluding the nonrecurring goodwill write-down.

In 2006, field gathering and processing operating income was $25.4 million compared to $24.1 million in 2005. The increase was due to $2.7 million in increased earnings from new facilities, $2.6 million due to higher rates, and $2.5 million from higher operating cost recovery, again, a direct result of AltaGas's strategy to manage the risk of volume declines by adding new facilities, increasing processing rates and moving to cost flow-through provisions in our contracts. These increases were partially offset by lower producer activity and operational and third-party disruptions at Bantry and Rainbow Lake, which persisted throughout the year and decreased operating income by $5.3 million.

In addition, there were volume declines that cost approximately $2 million, higher amortization of $1.3 million due to expansions, and the goodwill write-down. Adjusted for corporate costs of $3.3 million that were charged to the segment last year and $0.9 million in positive equalizations of operating costs from 2005, FG&P operating income was down approximately $1 million year-over-year.

Moving on to the extraction and transmission segment, results were almost flat compared with fourth-quarter last year and up 16% year-over-year to $7.1 million and $35.2 million respectively. Both increases were primarily due to higher frac spreads and higher volume process in the extraction business. The 2006 transmission volumes declined to 400 million cubic feet per day from 432 million cubic feet per day due to lower deliveries from shippers, primarily on the Suffield and Cold Lake transmission systems. As a result, operating income in the transmission business decreased in 2006 as a result of the deferral of $0.8 million to account of the shortfall volumes credited to the shippers account in the year. Frac spreads were approximately $13 per barrel in the fourth quarter and $18.50 per barrel for the year compared to $6.50 and $9.50 per barrel in the same period of 2005.

In extraction, our ability to lock in the majority of volumes with the long-term contracts but leave a small portion exposed to frac spreads paid off in 2006. The 7% of our volumes exposed to frac spread added $9.1 million to net revenue in 2006. In 2005, the 5% of volumes exposed to frac spreads added $3.7 million. In times of low or negative frac spreads like the fourth quarter of 2005, we had the ability to reinject the liquids thereby limiting our downside exposure. The increase in percentage volumes exposed to frac spreads was a result of increased volumes flown to our facility and not to a change of contracting strategy for a term.

The enhanced ethane recovery project at our Edmonton extraction plant increased processing volumes in December. The project was completed in January and increased total annual ethane production capability by 10% or 800 barrels per day. Since full completion of this project in late January, incremental ethane production has at times exceeded 1000 barrels per day.

Also, in late 2006, AltaGas increased its ownership at one of the Empress extraction facilities, which increased our extraction capacity by 15 million cubic feet per day. David has already mentioned the 18 million cubic feet per day Cold Lake/Orion transmission expansion project planned for May 1.

Before I move on to the power segment, I should point out that pipeline throughput has minimal overall impact on the financial results of the segment due to cost of service through take-or-pay contractual arrangements in place. While we deferred $28 million in revenue to account for lower volumes shipped in 2006, given current throughput on Suffield system, we do not expect revenue to be deferred in 2007.

Our power generation segment finished off the year with another very strong quarter. Our average price received on the sale of power, which includes both hedged and spot sales was over $83 per megawatt hour, up from 18 -- up more than $18 from the same quarter last year and $10 in Q3 this year.

For 2006 as a whole, our average price received was just under $70 per megawatt hour, up almost $15 from 2005. In comparison, the average power pool price was $80 per megawatt hour in 2006, up $10 from 2005. The average spot price was just under $117 per megawatt hour in the fourth quarter of both 2005 and 2006. That $25.5 million fourth-quarter 2006 operating income in the power generation segment was 60% higher than in the fourth quarter of 2005.

Revenue from the sale of power was higher due to higher hedged prices and to lower hedged volumes, the latter leading to higher revenue through spot sales. In addition, transmission costs for Sundance dropped by $7.8 million in the fourth quarter compared to the same quarter in 2005 due to the changes in the transmission care methodology that went into place on January 1st this year.

Note the Genesee contract reported net revenue of $2.1 million in the fourth quarter 2005. In 2006, operating income was just under $91 million in the power generation segment, was 87% higher than in 2005. Again, these increases were due to higher power prices received as a result of higher hedged and spot prices and the lower transmission costs.

Higher earnings from the gas-fired peaking plants also contributed $2.1 million to the increase. Genesee contributed $4 million to net revenue in 2006, down from $6.5 million from 2005.

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

The energy services segment accounted for less than 1% of operating income in the fourth quarter at $0.2 million compared to $1.8 million in the fourth quarter of 2005. The decrease was mainly due to lower volumes and higher depletion rates in the oil and gas production business and to higher amortization of energy services contracts and relationships, primarily due to a $0.6 million adjustment reported in fourth quarter 2005.

Both the number of energy management services contracts and average gas volumes marketed were up compared to the previous quarters of 2005. In 2006, energy services operating income was $2.8 million compared to $5.6 million in the same period in 2005, primarily due to lower profitability in the oil and gas production business.

Oil and gas production and non-core business for AltaGas have been experiencing production declines as a result of minimal capital expenditures in 2006. The underlying reserves in this business continue to have value and AltaGas is considering alternatives for maximizing the value of these assets.

In the fourth quarter of 2005, the natural gas distribution segment contributed operating income of $1.2 million based on six weeks of results. With the spinout of this segment in November 2005, we now hold a 27% share of AltaGas Utility Group and therefore included income of approximately $700,000 in our corporate segment this quarter.

The segment contributed $6.2 million in operating income in 2005 and paid $1.1 million in taxes. In 2006, $1.1 million of revenue from the utility group is included in the corporate segment. The corporate segment has an operating loss of $7.8 million in the fourth quarter compared to a loss of $4.5 million in the same period of 2005. The increased cost of the segment was due to higher salaries and benefits and higher costs to the general escalations and growth of the trust.

It was also a function of the cost no longer being charged to the operating segments. Also, there was the 2005 gain of $900,000 due to the spinout of the gas distribution business. The higher loss was partially offset by higher earnings from Taylor and utility group, the latter due to a conclusion for the entire quarter compared to six weeks in 2005 and to the $600,000 write-down of an investment in a private company in fourth quarter 2005.

In 2006, the corporate segments had an operating loss of $27.6 million, $20.7 million higher than in 2005. The increased cost in the segment was due to several factors. In 2006, administrative and compensation costs increased by approximately $9 million. In 2005, onetime items related to our Taylor investment added $8.6 million to operating income in 2005 and the gain on sale of the utility group units added $900,000. $3.9 million of corporate costs were reported in the operating segments rather than in the corporate segment.

And the cost to meet certification requirements were $1 million lower. This was partially offset by higher earnings reported for AltaGas's investment in Taylor as well as earnings from utility group for all of 2006 compared to six weeks in 2005, the 2005 write-down of the private company previously discussed.

Now that I have discussed results in each of the segments, I will move to a discussion of some consolidated numbers. Amortization costs for 2006 were $46.4 million compared to $47.4 million in 2005. The $6.8 million increase in amortization due to the distribution business spinout was partially offset by growth in field gathering and processing segment, the addition of iQ2, increased depletion expense for oil and gas properties, amortization related to the acquisition of energy services contracts and relationships, and the fourth-quarter 2006 goodwill impairment related to a non-core investment.

Our 2006 interest expense was just over $13 million, a 30% decrease from the 2005. This was due to lower average debt balances as a result of using the proceeds of the spinout of the distribution business to pay down debt at the end of 2005 and the higher funds from operations. Also contributing to the lower interest expense was an average boring rate of 4.9%, which was 70 basis points lower than in 2005, primarily driven by the August 2005 refinancing of term debt at lower rates.

Income tax recoveries in 2006 were $1.1 million compared to recoveries of $1.3 million in 2005. Decreased recoveries were a result of higher net income before tax of 2006, partially offset by the non-cash future tax benefit of $6.6 million that resulted from federal and Alberta income tax reductions in 2006.

Income taxes reported in 2005 also included approximately $1.1 million of expense related to the gas distribution segment, an adjustment related to future tax liabilities in fourth quarter 2005 that resulted in a recovery of $1.6 million, and a lower effective tax rate for the Taylor capital gain reported in 2005.

In the quarter, income taxes were $1.4 million compared to recoveries of $1.3 million for fourth quarter 2005. Invested capital in the quarter totaled almost $13 million compared to $56 million in the fourth quarter of 2005.

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

Growth capital spent in 2006 was $62 million, $53 million of which was spent in the field gathering and processing segment. Invested capital tables in our news release give you a detailed view of where we have spent our capital this year.

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

I'm happy to report that in the fourth quarter, DBRS confirmed AltaGas's medium-term note and stability ratings and increased the trend on our MTN rating from stable to positive. S&P also affirmed its stability, corporate credit and senior unsecured debt ratings as well as confirmed its outlook on AltaGas. Both the rating agencies were comfortable with our growth strategy and financial targets and recognized that our business fundamentals and credit metrics continue to be strong.

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

In regards to cash flow, funds from operation in 2006 were up 25% to almost $162 million. The 2005 funds from operations include funds from the distribution business, but not the $7.9 million after-tax proceeds of the Taylor disposition which were reported as an investing activity in 2005.

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

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

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

Marshal Thompson - *AltaGas Income Trust - SVP, External Relations and Corporate Risk*

That completes the formal part of our conference call this afternoon. David and Rick as well as David Wright, Executive Vice President, are now available to answer your questions. Angie, I will now turn the call back to you for the question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Linda Ezergailis, TD Newcrest.

Linda Ezergailis - *TD Newcrest - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

On the base business yes. I think I pointed out that we do have some exposure to spot price on power. And that could have a material impact on performance as we are at our target and the market looks strong. So our expectation there is at 2006 level.

Some exposure as well as you saw in frac spread, we are expecting a slight decline there offset by growth in base business. But anywhere frac spreads comes in, there's some question, some variability there.

The other places that you will see is just some G&A control costs and costs of just operating. You have a little as we're not sure of what 2007. But we feel that we will have a good year. And the only other nonrecurring item of significance is the tax change of $6.6 million.

Linda Ezergailis - *TD Newcrest - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

The forward markets are suggesting mid-70s to low-80s, especially in the back half. And I think February is going to come in 70, $85 range. It's been fairly volatile, but it's been a strong quarter. We feel comfortable that on a full year that we'll see power prices consistent with '06 at this time. That's what the market is saying and solid performance.

Linda Ezergailis - *TD Newcrest - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

Yes.

Linda Ezergailis - *TD Newcrest - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Linda Ezergailis - *TD Newcrest - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

Generally flat.

Operator

Robert Catellier, Clarus Securities.

Robert Catellier - *Clarus Securities - Analyst*

Could you comment on the rate of SG&A? And separately, operating expense inflations, have you seen a change in -- where those are going?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

I'll answer SG&A and I will let Rick answer operating costs. We would expect to see a slowdown in our growth in SG&A and I will be working hard with my team to ensure that.

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

Robert Catellier - *Clarus Securities - Analyst*

What about the other segments?

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Robert Catellier - *Clarus Securities - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

I think we've clearly seen some liquidity issues in terms of capital access for smaller juniors, and we've seen lower pricing for those. So I think there's opportunity there to make good investments.

I would suggest at this point though, it's similar to the housing market that the price has not fallen to a level that we think are prudent -- make prudent investments. We think that will happen over the year.

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

Robert Catellier - *Clarus Securities - Analyst*

Yes, so it just takes time for the expenses to normalize and the price would come down?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

I think it's also showed that in the lower-cost areas are (indiscernible) pretty solid and central, very solid in terms of performance, but I think might have surprised some people.

Robert Catellier - *Clarus Securities - Analyst*

Can you reiterate the capital expansion budget for field gathering and processing? I missed that figure.

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

In excess of $50 million.

Robert Catellier - *Clarus Securities - Analyst*

Just along the same line of thinking, I am wondering if your current financial strength and perhaps the capital constraints in the market would not lead to more wind power opportunities.

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Robert Catellier - *Clarus Securities - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Robert Catellier - *Clarus Securities - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

We had [roffer] rights.

Robert Catellier - *Clarus Securities - Analyst*

Are there any other investment opportunities there?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Robert Catellier - *Clarus Securities - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Operator

Matthew Akman, CIBC World Markets.

Matthew Akman - *CIBC World Markets - Analyst*

I just want to clarify guidance on the field gathering and processing for '07. Do you guys expect operating income to be roughly flat with 2006? Is that what you were saying?

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

Matthew Akman - *CIBC World Markets - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

I'll answer. First, our new plans came on slower than we anticipated. We're just now starting to see them perform at the levels we thought. So 2006 isn't a fair representation.

We are very focused on parts -- profit margin expansion. And clearly, Rick has a mandate to do that in our field gathering process, and we think there's a lot of opportunity there in that business. And we do challenge on our ROI and we are focused on moving that up. We didn't see the full effect of our capital in 2006 and we expect that in 2007.

Matthew Akman - *CIBC World Markets - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Matthew Akman - *CIBC World Markets - Analyst*

Maybe I can move on and just ask what is the status of the GreenWing partnership specifically? Are there still development opportunities there on the wind side?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Matthew Akman - *CIBC World Markets - Analyst*

So you're still working with the GreenWing folks?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

Yes, they also have a couple of projects in the U.S. that were more developers on -- and those are still moving forward as well.

Operator

(OPERATOR INSTRUCTIONS). Nima Billou, Bloom Investment Counsel.

Nima Billou - *Bloom Investment Counsel - Analyst*

A quick question -- in terms of the costs, is it a matter of like for instance the energy services segment -- I know it's a relatively small segment -- but is it a matter of adding sort of human capital, adding to the sales force causing a spike in these costs? You had mentioned it was part admin, part compensation. And then, you expect sales and revenues to follow. Or is it a question of just having to pay more for existing talent?

With respect to volumes on the field gathering and processing side, a lot of your facilities are mobile. Do you expect to reallocate them into other areas where drilling may be flat or is this just a question of broad decline?

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

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

Nima Billou - *Bloom Investment Counsel - Analyst*

What would account for just general cost inflation I guess? What are some of the pressures you are seeing on the operating cost side?

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

Well, in the FG&P business particularly, 2006 experienced in all of Western Canadian Basin but particularly in Alberta, experienced significant inflationary pressure because of the high demand for both people and services, such as rigs and engineering firms, contractors, compressors, pipes, steel. With the oil sands growth, it's put a lot of pressure. We're seeing that pressure subside in the latter part of '06 and into early '07.

Nima Billou - *Bloom Investment Counsel - Analyst*

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

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

I think they both have experienced similar pressures, yes.

Operator

Fai Lee, RBC Capital Markets.

Fai Lee - *RBC Capital Markets - Analyst*

David, can you remind me how much you have right now in terms of percentage -- sorry -- for the fuel and gathering business, how much of the business is related to contracts where you have a percentage of operating flow-through costs flow through the (multiple speakers)?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

40% as of year-end I believe.

Fai Lee - *RBC Capital Markets - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

North of 50.

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

Fai Lee - *RBC Capital Markets - Analyst*

And what's the bottom line -- if you achieve your 10% per year, what's the bottom-line contribution to operating margins approximately?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

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

Fai Lee - *RBC Capital Markets - Analyst*

Did it go up -- was it up about 10% in '06?

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

Fai Lee - *RBC Capital Markets - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

At this point, we are hold.

Operator

Linda Ezergailis, TD Newcrest.

Linda Ezergailis - *TD Newcrest - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

Yes, I think so.

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

Linda Ezergailis - *TD Newcrest - Analyst*

And in terms of your working capital and your operational cash flows, what sort of -- we've seen now both in '05 and '06 is a substantial drawn capital. What was driving that? What might we expect going forward?

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

I am sorry. I'm not sure I followed your question.

Linda Ezergailis - *TD Newcrest - Analyst*

Well, if we look on the cash flows from operations, I don't recall seeing in your write-up an explanation of what's going on in your net change and nonworking -- non-cash working capital. And it was a use of capital of 14.3 million in 2006 and 16.5 million in 2005. So I am just wondering is that a function of commodity prices and where is that going on in your business? And what might we expect going forward? Is it a function of your business growing?

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

Linda Ezergailis - *TD Newcrest - Analyst*

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

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

All of that is equal. Yes.

Operator

Robert Catellier, Clarus Securities.

Robert Catellier - *Clarus Securities - Analyst*

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

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

I am being told by Debbie, in Q4, they were down. We had some locked-in margins there for some ability to reduce our go-forward O&M costs that we thought were prudent. So we didn't realize some of the high peaks there.

The other thing, prices in December around the 15th tailed off quite dramatically as people went away for Christmas. And we saw lower prices in the last two or three weeks of December.

Robert Catellier - *Clarus Securities - Analyst*

So you think you just took some operating and some maintenance?

David Cornhill - *AltaGas Income Trust - Chairman, President, CEO*

Yes. We did some things to ensure our long-term reduction costs of operating costs.

Richard Alexander - *AltaGas Income Trust - EVP, COO, CFO*

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

Operator

There are no further questions registered at this time. I would now like to turn the meeting back to Mr. Thompson.

Marshal Thompson - *AltaGas Income Trust - SVP, External Relations and Corporate Risk*

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

Operator

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