Q2 2018 ALTAGAS LTD. EARNINGS CALL

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the AltaGas Ltd. 2018 Second Quarter Results Conference Call and Webcast.

I would now like to turn the meeting over to Jess Nieukerk, Senior Director Investor Relations. Please go ahead, Mr. Nieukerk.

Jess Nieukerk – AltaGas Ltd. – *Senior Director Investor Relations*

Thank you. Good morning, everyone. Welcome to AltaGas' Second Quarter 2018 Conference Call.

Speaking today are David Cornhill, Co-Chief Executive Officer; Tim Watson, Executive Vice President and Chief Financial Officer; Adrian Chapman, President and Chief Executive Officer for Washington Gas; and Randy Toone, acting President for Gas. I would like to acknowledge that Phil Knoll, Co-Chief Executive Officer, is also here with us today.

Please note that David will provide some commentary on the recent resignation of David Harris. However, we will not be taking any questions on this matter. We will have a question-and-answer session following all formal comments from our speakers for all questions related to AltaGas' strategy and business.

Before we begin, I'd like to remind you that certain information presented today may include forward-looking statements. Such statements reflect the corporation's current expectations, estimates, projections and assumptions. These forward-looking statements are not guarantees of future performance and they are subject to certain risks, which could cause actual performance and financial results to vary materially from those contemplated in the forward-looking statements. For additional information on these risks, please take a look at our Annual Information Form under the heading risk factors.

I'll now turn the call over to David Cornhill.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Thank you, Jess. Good morning, everyone.

As most of you know, I assumed the role of interim Co-CEO of AltaGas last week along with Phil Knoll. Phil has been a director of the company who has tremendous background in Utilities and Midstream operations. Phil held senior roles in TransCanada, Duke Energy and Westcoast.

As I mentioned, I do not intend to answer any questions with respect to David Harris' resignation last week. The board and David Harris mutually agreed to his resignation due to a complaint that was under investigation by the board. The complaint was not related to AltaGas' strategy, operations and financial reporting.

David, as CEO of the company, was an important contributor but more importantly, he led a team and that team at AltaGas is very strong. The executive leadership team is stepping in and stepping up. I am confident that we won't skip a beat as we search for a successor. The search for a permanent CEO is well underway but as you can imagine we expect it will take a bit of time.

Phil and I will act as interim Co-CEOs. I will largely look after corporate strategy, provide leadership to the executive team, and oversee the integration of WGL and the asset disposal process. Phil will oversee and provide leadership for all operational aspects of the company including the advancement of all our capital projects. Phil and I have worked together in various capacities over the last 30 years and I want to thank Phil for coming on-board at this time and working with me and the rest of the AltaGas team.

We need to keep focus on all the opportunities we have ahead of us. We are not standing still. We are charging ahead on all fronts. We are reshaping the company to align with our long-term vision. We will continue to deliver projects on time and on budget. Our pace will not slow and our path will not change.

Turning to Q2 results, the last few months have been extremely busy at AltaGas and we continue to advance our business. Second quarter results were solid. We achieved second quarter 2018 normalized EBITDA of $166 million and normalized funds from operation of $121 million, which is consistent with 2017 and in line with expectations.

The WGL transaction closed after quarter-end with the receiving of regulatory approval in Maryland and Washington DC in May and June respectively.

Our capital program for 2018 will be between $1 billion and $1.3 billion with Midstream and Utilities comprising over 80 percent of the total.

Our key projects remain on track, including RIPET, Central Penn Pipeline and Mountain Valley Pipeline. Washington Gas filed new rate applications in both Maryland and Virginia. Our asset monetization process is progressing. We announced the close of a sale of 35 percent of Northwest Hydro in the quarter. We remain very comfortable with our funding strategy.

Our outlook for 2018 remains unchanged and when we look at 2019 and beyond, we believe we have significant opportunities to grow our business, particularly in Gas and Utilities.

I'm going to pass the call over to the team. Tim will review our financial highlights, Adrian Chapman will provide updates on our regulatory developments and Randy Toone will discuss the progress we are making on our large projects.

I will close with our vision for AltaGas going forward and how we see this translating into long-term sustainable value creation for all stakeholders. Tim?

Tim Watson – AltaGas Ltd. – *EVP & CFO*

Thanks, David, and good morning, everyone. On today's call, I want to cover the following topics: financial highlights for the quarter, financial results including by business segment, highlights of WGL's third quarter financial results that were filed this morning, WGL acquisition update and integration, outlook for the balance of 2018, funding strategy and filing, financial strength, and balance sheet, and I'll assure you it will take less than a couple of hours anyhow…much less than that.

So let's start with the financial highlights. Our second quarter results were in line with our expectations and consistent with the performance in the second quarter of 2017. Note that I will be referring to AltaGas' stand-alone Q2 results as the WGL acquisition did not close until July 6, following the end of our second quarter.

Normalized EBITDA, as David said, was $166 million and benefitted from higher frac pricing as well as our new facilities being Townsend 2A and North Pine. These were offset by unfavourable FX rates year over year impacting our US assets and the impacted US tax reform. The absence of onetime items at SEMCO, which benefitted Q2 2017 was also a factor.

Now if we look at the performance of our business segments, we continue to see strong EBITDA growth in Gas while Power was flat and Utilities declined about $5 million. Gas represented approximately 28 percent of our normalized EBITDA in the quarter and grew almost 20 percent to $48 million of EBITDA.

Gas benefitted from the following items: stronger realized frac spreads combined with higher frac-exposed volumes, contributions from our Townsend 2A/North Pine Facilities, and changes in the operating structure at the Younger Facility, which became effective in April 2018. These were offset by a $3 million impact EBITDA from planned turnarounds at three of our extraction plants, Harmattan, JEEP, and PEEP. Equity earnings from Petrogas were $1 million compared to $2 million last year due to unrealized mark-to-market losses on hedges. However, Q2 operating performance was up nicely at Petrogas versus last year.

Power, which represents about 43 percent of our normalized EBITDA in a quarter had normalized EBITDA of $75 million. The renewable capacity factor increased in the quarter due to higher river flow at the Northwest Hydro Facilities and favourable wind conditions at Bear Mountain. Slightly higher operating expenses at Northwest Hydro were an offset.

We saw a significant increase in conventional power sales year over year. Two hundred and thirty-three gigawatt hours were sold in the quarter, an almost 60 percent increase compared to the same quarter last year. This was the result of greater runtime at Blythe as a result of greater operational and fuel flexibility. The contracted conventional equivalent availability factor; however, was lower in the second quarter of 2018 as a result of unplanned outages at Blythe. The May 2018 PPA expiration at Ripon also had a $1 million impact on EBITDA.

Higher generation and higher power pool prices at the Alberta Peaker and cogen plants were partially offset by lower hedge gains relative to the second quarter last year in Alberta. As a result, Power's normalized Q2 EBITDA was flat versus last year excluding the effect of foreign exchange. The impact of a stronger Canadian dollar was a $2 million reduction versus Q2 2017 in Power.

Finally, the Utilities segment, which currently represents 29 percent of total EBITDA, was $50 million in second quarter of 2018. Weather had both a positive and negative impact on the Utilities business in the quarter. Overall, however, colder weather in Michigan and to a lesser extent Alberta resulted in increased natural gas deliveries. Continued customer growth, higher rates and rate-based expansion were also positives for our Utilities in the quarter.

Despite this, Utilities did decline in EBITDA by $5 million. Onetime impacts at SEMCO in Q2 2017 of $4 million as well as the $4 million impact of US tax reform and higher expenses and finally, the $2 million impact from the stronger Canadian dollar in the second quarter all drove the slight reduction in Utilities EBITDA.

Before I turn to funds from operation, I wanted to mention how WGL will be reflected in our financials starting this quarter, Q3. WGL's activities will continue to be carried out through three business segments Gas, Power, and Utilities. These businesses will be reflected in each of the respective AltaGas segments.

AltaGas' normalized funds from operations were $121 million or $0.67 per share, down slightly from last year's $123 million or $0.72 per share. In the second quarter of 2018, we received $3 million in preferred share dividends and $1 million in common share dividends from Petrogas, which were both unchanged from the same quarter last year.

Normalized net income in the second quarter of 2018 decreased to $23 million or $0.13 per share versus $28 million or $0.17 per share in Q2 2017. Key drivers were higher interest, depreciation and amortization expense, and preferred share dividends partially offset by lower income tax expense and the previously mentioned factors that impacted normalized EBITDA.

There were several normalizing adjustments for the quarter as you typically see and you can find those in our disclosure that we released this morning.

For the second quarter of 2018, income tax expense was $2 million compared to $8 million in the same quarter of the previous year. Income tax decreased mainly due to the reduction in the US Federal tax rate from 35 percent to 21 percent under US tax reform.

Invested capital net of dispositions in the second quarter of 2018 was $119 million compared to $122 million last year. This includes maintenance capital in the quarter of $17 million, split $10 million in the Gas segment, mainly the turnarounds I referred to, and $7 million in the Power segment, mainly due to some enhancements we made to improve productivity factors at Northwest Hydro.

AltaGas' balance sheet ended the second quarter in a strong position with debt-to-capital at 33 percent. This low level reflects the successful closing of a 35 percent interest in the Northwest Hydro Facilities for $922 million on June 22nd and it positions AltaGas well on a combined basis with WGL for the balance of the year.

Turning to just some brief comments for WGL around its recently filed US GAAP Q3 financials for June 30th, the fiscal third quarter is typically—and I'm talking about WGL's fiscal third quarter—is typically a lower one relative to other quarters of the year due to the seasonality of the main utilities business. Now within WGL Utilities, there was a small EBIT impact of US$6.4 million from lower tax rates under US tax reform as well as lower unrealized mark-to-market valuations and higher operating costs.

Retail energy marketing EBIT at WGL was up for the quarter while the commercial energy systems power business at WGL was roughly similar to last year. Midstream EBIT was down as higher realized transportation margins and pipeline investment earnings were offset by lower unrealized mark-to-market valuations and realized storage margins.

So in total for WGL in the quarter, the EBIT was US$9 million versus US$36 million last year but for the first nine months of WGL's 2018 fiscal year EBIT was US$307 million versus US$352 million last year. Net income, however, was up. It was US$225 million versus US$189 million last year with some benefit due to the lower effect of federal income tax rate.

In terms of the WGL acquisition itself, we are as excited and confident about the WGL business and the power of the combination today as we were when we first announced it in January of 2017. It's the very nature of heavily regulated business that it can take some time to receive all the required regulatory and other approvals to close the transaction.

Now from the time we announced the acquisition of WGL to close it was a 17-month, very rigorous and complex process, as you know. The team navigated this process extremely well. There were many people across the entire organization that was completely focused on this and they made the acquisition a reality. And there were many more that also worked tirelessly to keep AltaGas moving forward and continuing to build a strong foundation for growth.

And grow we have. In 2010, just for perspective, AltaGas had an enterprise value of about $3 billion and assets of about $3 billion as well. Today, AltaGas is around $17 billion in terms of enterprise value and about $23 billion in assets respectively. As we look forward as a company, we have a clear trajectory and we believe our next big milestone is $30 billion in assets with continued growth in per-share metrics to support that.

Now the next steps with WGL are for us to deliver on our commitments: complete the integration activities, achieve synergy targets, and invest in compelling opportunities. WGL management remains in place—a new board of Washington Gas, the regulated utility, has been constituted and has already met. The board has local and independent directors. We are working hard to ensure that the transition and integration activities are seamless to the business. To enable this, there are executives at both an AltaGas corporate level as well as the WGL level that are charged with delivering on these initiatives.

All right, so I'm just going to turn to the 2018 outlook and following the close of the WGL transaction in early July, our guidance, as David said, remains unchanged. We expect 2018 normalized EBITDA to increase approximately 25 to 30 percent and normalized funds from operations to increase approximately 15 to 20 percent on a full year basis.

We anticipate approximately 40 percent of normalized EBITDA will be generated from our Utilities, 35 percent from our Power segment and approximately 25 percent from our Gas segment. The weighting for Gas is expected to increase in future years with currently planned and expected future new gas infrastructure that we build. Gas EBITDA in 2018 will benefit from WGL's growing pipeline investments including Stonewall, which is already in service and Central Penn, which is expected online in Q3 this year.

The Gas segment is also benefitting from the full year of contributions from the Townsend 2A/North Pine Facilities, higher frac exposed volumes at 10,300 barrels per day with hedges in place for approximately 75 percent of exposed volumes at very attractive levels of $33 per barrel, excluding basis differentials will also have a positive impact.

2018 EBITDA in our Power segment will benefit from the higher expected earnings from the Northwest Hydro Facilities due to price increases as well as efficiency improvements, higher volumes at Blythe as a result of increased runtime, and higher power prices in Alberta, as well as finally, WGL's growing distributed generation assets across 20 US States.

While the PPA for Ripon expired in Q2 this year, it impacts 2018 EBITDA by C$7 million. It will be partially offset with new Resource Adequacy contracts that it has been rewarded with and which are in place until the end of this year and are expected to be renewed on an ongoing basis.

2018 EBITDA from Utilities will be driven by colder weather experienced year-to-date, combined with rate-based and customer growth as well as the addition of WGL's growing utility business.

Just a reminder, with approximately 60 percent of our 2018 EBITDA being US-dollar based, I want to provide you a quick sensitivity on FX. For every $0.05 change in the Canadian-to-US dollar exchange rate there is a corresponding C$16 million impact on second-half 2018 EBITDA which represents less than 2 percent of our total expected EBITDA.

Now turning to 2018 capital expenditures, on a combined basis, we expect total capital in a range of C$1 billion to C$1.3 billion, again unchanged from previous guidance. Our capital allocation reflects the growth opportunities we see in our business with Gas driving a lot of the growth over the next few years followed by Utilities. Gas will account for 40 to 45 percent of the total 2018 capital. Utilities will be 45 to 50 percent with Power, mainly selected energy storage and renewables, being the balance.

The largest Gas investments include construction of RIPET, investments in Central Penn and Mountain Valley, combined with Gas capital for new tie-ins and expected new projects over the near and medium term.

We expect both maintaining and significantly growing Utility rate base and are executing on attractive utility accelerated pipeline replacement programs in each of Virginia, Maryland, DC and Michigan will all be big contributors. And we're also working through a preconstruction design, engineering and right-of-way procurement for the Marquette Connector Pipeline.

Finally, we will continue to invest in a distributed generation suite of projects across the United States and selectively consider energy storage opportunities.

Gas and Power maintenance capital for full year 2018 is expected to be approximately $25 million to $35 million, pretty consistent with where we've been in the past. 2018 capital program is expected to be funded through internally generated cash flow, the dividend reinvestment plan, and normal course borrowings.

Switching to the funding strategy now, during second quarter AltaGas made material progress on its asset monetization plans to align with the long-term vision for the business as well as to advance the financing plans with respect to the WGL acquisition.

The WGL acquisition was financed with 1) net proceeds of approximately $2.3 billion from the sale of subscription receipts, 2) gross proceeds of approximately C$922 million from the sale of a 35 percent minority interest in the Northwest British Columbia Hydro Facilities, and 3) from a US$2.3 billion draw on a fully committed acquisition credit facility.

Consistent with what we have said previously, AltaGas expects to expeditiously repay the funds drawn on the bridge facility through the monetization of certain assets as well as with the proceeds of term debt and hybrid securities offerings. The sale of a minority interest in the Northwest BC Hydro while retaining operatorship, which was completed at a 2017 EBITDA multiple of 27 times with implied total value for that particular asset of over $2.6 billion, was a very significant first step for us.

To facilitate potential securities offerings, a US$2 billion final short form base shelf prospectus for the issuance of both debt securities including hybrids and preferred shares was filed in June. Certain assets are currently under review for potential divestiture over the next several months and we expect the remaining assets to reflect AltaGas' long-term vision for the business.

As David mentioned, we cannot look at the asset sales in isolation simply as a vehicle to raise capital to fund the WGL acquisition. They need to align with the future vision we have for AltaGas in terms of long-term growth, asset mix, profitability and risk-adjusted returns.

We remain comfortable with our plan to raise in total over $2 billion through the monetization process, and with the certainty of WGL closing now behind us we are able to finally move more expeditiously. We are taking a thoughtful approach to ensure that we achieve both appropriate value for the assets that are monetized as well as to position AltaGas to lead in a new energy economy.

I am getting close to my finishing comments here. The WGL transaction in terms of balance sheet and financial strength remains highly accretive to both FFO per share and earnings-per-share accretion beginning the first full year of 2019. With the close of the transaction and following the completion of our funding strategy, our balance sheet metrics will significantly improve.

In 2019, we expect our FFO to debt, calculated based on S&P's definition, to move towards the mid-teens level and net debt to EBITDA to trend down towards 5 times, again consistent with what we've been saying.

We remain committed to maintaining strong access to capital and to our investment-grade credit ratings. On a combined basis, approximately 85 percent of our total EBITDA will be underpinned by contracts or regulated assets with no direct commodity price or volume exposure.

So in closing, before I pass it over to Adrian, I wanted to emphasize some key points. Our business is performing as expected and our outlook for 2018 remains strong. AltaGas has significant investment opportunities particularly in Gas and US Utilities over the near and midterm. WGL's business is performing well and in line with our expectations. The transaction itself remains highly accretive to AltaGas for both FFO per share and earnings per share in 2019.

We will reshape our business through the asset monetization process, which supports the completion of our funding. As noted, the asset sale steps continue to progress and we look to focus on selling assets with the remaining assets being the foundation for our next phase of growth.

Reshaping our business is one part of the puzzle. We are also optimizing our operating businesses to enhance the long-term value creation as well. We're committed to maintaining a solid balance sheet and improving our credit metrics.

And finally, we expect to continue to have a visible dividend growth, while being mindful of our payout ratio as well as balancing dividend growth with investment in the meaningful growth opportunities we have in our businesses.

And so with that, I'll turn it over to Adrian.

Adrian Chapman – Washington Gas – *President & CEO*

Thank you, Tim. This is my first quarterly call with AltaGas and I, along with all WGL employees, am very excited to now be part of the AltaGas team. As Tim mentioned, we firmly believe that as a combined entity we are much stronger together.

I'm going to just touch briefly on the regulatory updates that we have had over the last few months before passing the call over to Randy.

In the second quarter WGL filed two applications in Maryland. The first, filed on May 15th, was with respect to an increase in base rates for natural gas service to support natural gas safety, reliability and service enhancements. This was the first rate increase request in five years.

This rate application is expected to generate US$41 million in additional revenue comprised of an increase in base rates of US$56 million, with an offset of US$50 million in annual surcharges currently paid by customers for our accelerated pipe replacement program in Maryland. We expect to have an order on this application no later than December 15th with new rates taking effect January 1, 2019.

In mid-June, Washington Gas made an additional filing in Maryland with respect to the second phase of its accelerated pipe replacement initiative known as STRIDE or Strategic Infrastructure Development and Enhancement. The Company's STRIDE 2 application requests approximately US$394 million in accelerated pipeline replacements for 2019 through 2023.

STRIDE expenditures are collected via a monthly surcharge at the same time the eligible infrastructure replacement is made. A prehearing conference was held on July 25, 2018. A decision is expected by mid-December 2018, which should allow for implementation of the new STRIDE 2 surcharge as STRIDE 1 expenditures are rolled into base rates as a result of the rate case decision.

And finally, yesterday, Washington Gas filed a rate application in Virginia to increase its base rates for natural gas service. This base rate increase, if granted, would be approximately US$38 million. US$15 million of this amount relates to costs being collected through the monthly SAVE initiative, which stands for Steps to Achieve Virginia's Energy Plan and represents surcharges for accelerated pipeline replacement.

This increase would enable Washington Gas to earn its allowed return and reflects that increased costs for operations and maintenance as well as plant and service since the last base rate proceeding.

It's important to note that the rate case filings are normal course applications that reflect the utilities needs to maintain safe, reliable and cost-effective energy for their customers and are not related to the recently closed acquisition.

Turning to our Utility business as a whole, AltaGas now has a total rate base in its regulated Utilities of approximately $5 billion. Serving approximately 1.8 million customers, our utilities across North America deliver safe, reliable and clean natural gas to homes and businesses in eight jurisdictions. We have multiple opportunities to grow our rate base with approved system betterment across our utilities as well as accelerated pipe replacement programs in Virginia, Maryland and Washington D.C.

We expect to be able to grow our rate base to approximately $7 billion by the end of 2021. The regulatory activity and rate case applications in both Virginia and Maryland will support that growth as well.

With that, let me turn the call over to Randy.

Randy Toone – AltaGas Ltd. – *Acting President, Gas*

Thank you, Adrian. Tim discussed our capital program in his comments but I'm going to speak to a few of the key projects and initiatives in the Gas segment that our capital is funding and support the long-term vision of the company.

Our key projects remain on track including RIPET, Central Penn Pipeline and Mountain Valley Pipeline. Approximately 40 percent of the capital expenditures in AltaGas' plan through 2021 are allocated towards Gas.

AltaGas continues to be well positioned to actively participate in energy export projects on both coasts of North America and has a presence in the two most prolific gas plays--the Monterey and the Marcellus. With the start-up of Cove Point, we are currently supplying gas for LNG Exports off the east coasts and with Ferndale we are currently exporting propane and butane off the west's.

We have spoken about our excitement around the RIPET project, which is expected to be the first propane export terminal on Canada's west coast. Construction of RIPET is progressing safely, on time and on budget. It is a $450 million to $500 million project that expects to ship 1.2 million tonnes per year of propane to Asia. That is equivalent to 40,000 barrels a day.

The competitive advantage over the Gulf coast is clear with only 10 days of shipping time to Asia compared to 25. The LPG storage tank, rail and marine infrastructure and the balance of plant construction remain on track to meet the expected commercial operation date of the first quarter of 2019.

We have approximately 75 percent of the supply secured and line of sight to have it fully contracted by COD. Asian propane prices are currently at a significant premium to North America which makes RIPET an attractive market.

On a broad industry basis and very good for AltaGas, the NEB approval of the TransCanada North Montney expansion has provided producers with much needed natural gas egress capacity, allowing them to move ahead with their growth plans. With our strategic infrastructure in Northeast BC, we see ourselves being well positioned to be part of that growth.

AltaGas provides a unique value proposition with our low-cost processing and access to export markets which is gaining traction with producers. This is evident with the recently announced Townsend expansion with Kelt Exploration. We are also in advanced discussions with other producers in the Montney who are looking to AltaGas to provide a fully integrated, customer-focused midstream solution, which provides increased value for their products.

Our Central Penn Project is a new 185-mile pipeline through Pennsylvania. WGL Midstream owns an indirect 21 percent of Central Penn, which will have the capacity to transport and deliver up to 1.7 bcf per day of natural gas from the northeastern Marcellus producing area to markets in the mid-Atlantic and southeastern regions of the United States.

The Central Penn Project is an integral part of the larger Atlantic Sunrise Project operated by Williams through Transco. The Atlantic Sunrise Project is designed to supply enough natural gas to meet the daily needs of more than 7 million American homes in the region.

Currently Central Penn is under construction and is expected to be placed into service in the third quarter of 2018. The total cost of this project, for our interests, is US$450 million and to date as of June 30th, we have spent US$415 million.

In summary, these are just a few examples of the opportunities we have in Gas over the years to come and with that, let me turn the call back over to David.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Thank you, Randy.

I will now make a couple of additional comments on asset monetization and funding strategy.

In order to complete the financing at WGL, maintain a strong balance sheet and provide us with greater financial flexibility to enable us to pursue many opportunities we have at AltaGas, we are currently working on monetizing several of our assets. In terms of next steps, we continue to advance discussion on monetizing AltaGas' assets. While we can't discuss this in any amount of detail, I'd like to tell you that we are focused not only on achieving the amount of capital that is needed to be raised but we are also very mindful of what the remaining assets look like and how they fit into the future of AltaGas.

We have grown from being small to big, from Canadian to North American, from a few jurisdictions to many. It is from this large base, as a large and leading player in clean energy infrastructure in North America that we will reshape the company and optimize our asset base. This will maintain and in fact, even strengthen our position as we move forward in our next stage of growth.

We are looking to balance the investment in growth opportunities we have with growth in our dividend. We expect to have visible dividend growth while being mindful of the appropriate dividend payout ratios and investment opportunities we have ahead of us.

In terms of financial outlook for 2018, as I said, it remains unchanged.

Looking to 2019 and beyond, we see growth focus in our Gas and Utility businesses. In our Gas business, there are macro business factors that give us confidence in growth opportunities whether it is TransCanada in North Montney, enhanced activity around LNG in Kitimat, and our RIPET project coming on-stream, we see growing traction and we are perfectly positioned to take advantage of these opportunities. An example is the announced Kelt LOI and we have several more opportunities coming down the road.

There are also many prospects for we see result of the expansion of the Marcellus gas production we see continually growing. We have interest in four pipelines in the basin and looking for more opportunities here.

In our US Utilities businesses, we also see significant growth in the next few years. Our US Utilities are in high growth areas, which will require significant capital expenditures to support customer additions, general system betterment and accelerated replacement programs.

In closing, our vision for our business, our asset sales strategy and our capital investments are linked and aligned. As we reshape AltaGas, our focus and investments will be in Gas and US Utilities. We are excited about the future of the reshaped business. We have a lot of room for growth while continuing to have low risk contracted assets with very little commodity exposure. We are well positioned to take advantage of the structural changes in the market and increased requirements for investment in the new energy economy. And finally, we will continue to make the right decisions for the long term. Long-term sustainability and value creation has always been a core of how we operate.

Before I turn it back to Jess, I want to mention, as usual, we have members of our senior leadership team here to answer any questions you may have. I will be turning to them to answer the detailed questions on our operations as they are the experts and they live and breathe the business daily.

Now I'll pass it over the Jess.

Jess Nieukerk – AltaGas Ltd. – *Senior Director Investor Relations*

Thank you, David. Operator, we will now take questions from the investment community please.

QUESTIONS AND ANSWERS

Operator

At this time if you would like to ask a question, press *, then 1, on your telephone keypad. To withdraw your question, press the # key.

Your first question comes from Rob Hope with Scotiabank. Your line is open.

Robert Hope – Scotiabank – *Analyst*

Yes. Thank you. Good morning, everyone. Appreciate all the colour and commentary on the kind of outlook for the asset base of AltaGas. I did notice specifically you mentioned clean energy as well as US Utilities. Could we imply that your conventional generation assets are once again being considered as an asset monetization candidate?

And then, I guess secondly, do conventional generation assets have a home in AltaGas longer term?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

I'm not going to speak specifically to any one asset with respect to our asset monetization. But I think what we want to emphasize, where we see the growth in returns going forward are in our Gas and US Utility operations and we see that's where our focus will be over the near term. So we won't exclude it. We haven't excluded anything, but clearly, we're focused on moving forward in those areas.

Robert Hope – Scotiabank – *Analyst*

All right, and then if we look into 2019 and beyond, just funding your organic growth program, can you give us some thoughts on how you look to fund the program longer term? And could we see potential further asset monetizations beyond that $2 billion to help you get down to that five times debt to EBITDA in 2019?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

What we're doing actually, Phil and I have only been in the seat a week, so you might want to give us a little time, but we're meeting next week with the executive team on that. We have a lot of growth opportunities the businesses and executives have moved forward. We'll look at that and clearly, if we sell assets to invest in higher returned assets, I think that's prudent for our shareholders and our bondholders.

Robert Hope – Scotiabank – *Analyst*

All right, and then just in terms of the dividend, you mentioned balancing growth and dividend. Do you have an altered view on payout ratio moving forward? Or is it just what the optimal use of capital is and whether or not you're getting properly valued for kind of the event outlook that you've presented?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Yes. As you know, I hold a fair number of shares. I think sustainable dividend and growing dividends, we think is important and sustainable first and growing dividends second. And we will work hard to do that. We think that we've got to balance dividend growth with value creation for the shareholder and it's a balancing act and we'll continue to make recommendations to the board on that balance.

Robert Hope – Scotiabank – *Analyst*

Thank you. I'll hop back in the queue.

Operator

Your next question comes from Ben Pham with BMO. Your line is open.

Ben Pham – BMO Capital Markets – *Analyst*

Okay. Thanks. I wanted to follow up on Rob's questions about asset sales and it looks like, at least from your commentary, that you absolutely want to keep US Utilities. You just picked it up and then you want to also keep a lot of your Gas Midstream assets. So it leaves really a broader remaining portfolio that could be sold.

Is that the case then, just looking at the recent valuations, Canadian Utilities, Conventional Power? It looks like it's probably more accretive to issue AltaGas equity here than sell those assets. So I'm just listening to Tim's commentary, it seems like are you—may be comfortable with that because it achieves reshaping longer term and you might get a bit of a benefit and evaluation pro-forma, is that a correct statement?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Well, I would say if we sold at 35 percent of Northwest Hydro, we think it's in the long-term best interest of the company. We've looked at every asset in the company, analysed it--so what we're now doing is--what is the best that fits with the long-term growth strategy and base for the company and that's how we're prioritizing what assets we sell.

I think selling the assets isn't the end. The end game is building a strong company to grow over the next five years so that's how we're focused on the asset monetization.

Ben Pham – BMO Capital Markets – *Analyst*

Okay, that would make sense. And then maybe any sense on—you've got some debt impressed to do left on related WGL, any sense of timing on that?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

No. Not really, at this point.

Ben Pham – BMO Capital Markets – *Analyst*

Okay.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

I hope I answered that correctly. Just, could you repeat that? I think I understood it but can you just repeat your question, so I don't miss…

Ben Pham – BMO Capital Markets – *Analyst*

Yeah, absolutely, there's from—maybe I'm missing it but I think there's some perhaps, debt left to do on the WGL side of things?

Jess Nieukerk – AltaGas Ltd. – *Senior Director Investor Relations*

You're referring to what we've said that we will do with hybrids and preferreds?

Ben Pham – BMO Capital Markets – *Analyst*

Yes.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

That's part of our overall funding and we're looking at options around that as well as asset monetization.

Ben Pham – BMO Capital Markets – *Analyst*

Okay. All right, and if I can squeeze one in, I'm not sure if index changes? Anything you can comment on that with investor—

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Tim?

Ben Pham – BMO Capital Markets – *Analyst*

—changes, or…

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

I'm not aware of anything, but Tim might be able to add to it?

Tim Watson – AltaGas Ltd. – *EVP & CFO*

Well, you're probably—to be honest, you and your team are probably closer to the machinations of index shifts here. I think you would've seen, a couple weeks ago, that there was some—two or three in this season I think. We had adjustments, given the important closure of the transaction and the change in our overall size as a company but I don't think—I think those were one off—onetime events from a volume perspective and since then you've seen pretty normal trading activity.

Ben Pham – BMO Capital Markets – *Analyst*

Okay. All right, all right. Thanks, everybody.

Operator

Your next question comes from Linda Ezergailis with TD Securities. Your line is open.

Linda Ezergailis – TD Securities – *Analyst*

Thank you. I realize it's early days in terms of your acquisition of WGL but can you give us a sense of kind of your draft timelines of integration process, both operationally as well as realizing synergies, at this point looking forward?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

I'll jump first. I guess I'd just like to say how I'm impressed with the acquisition of what I've seen from the teams of both AltaGas and WGL put their shoulder to the wheel to work together. And Adrian was up at AltaGas' board meeting last week and made a very strong presentation to our board.

So I would, from the cultural perspective of working and cooperating, I haven't seen—couldn't ask for a better outcome from an acquisition and I think that's something that we felt from day one. And I'm very impressed with the WGL team as well as the team here in Calgary.

Timeline—and that is way out of my depth and I'm looking—Tim will make a couple of comments.

Tim Watson – AltaGas Ltd. – *EVP & CFO*

Let me make a couple quick comments and others around the table feel free as well. Linda, I guess both companies created a joint integration committee of the boards, consisting of board members from each company. So you can see from a top-down level there's significant focus on this.

As I said earlier, I think, in my comments, there's executive sponsorship set out here for achieving the integration objectives and so various tasks have been assigned. We've got internal planning committees and things like that. We've got integrated functional teams that involve both AltaGas and WGL people. Those teams have completed all the day one integration tasks that we've been planning for the past year, frankly.

We're well into phase 2 in terms of integration tasks over the next six months or so through year-end and we're feeling very comfortable.

And again, just to emphasize our key objectives from an integration standpoint, are achieving our combined growth targets, optimizing our base business, and delivering on our merger commitments and our merger-related savings.

Linda Ezergailis – TD Securities – *Analyst*

And after phase 2 at year-end, is that the end of your operational integration or is there more after phase 2? And is that both operational and financial in terms of synergies…or can you comment on that?

Tim Watson – AltaGas Ltd. – *EVP & CFO*

It continues. I mean because a key part of the transaction for us is achieving growth targets and growth targets will go, as you can see from the trajectories of the businesses will go well beyond the end of this year.

Linda Ezergailis – TD Securities – *Analyst*

So that would be like a phase 3 and more related to growth?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

I think we get—after the phase 2—we'll get to normal business operations in how you optimize a business and just on that, Adrian is going to be heading up our US Utilities, so US utility integration will be underway as well.

Linda Ezergailis – TD Securities – *Analyst*

Thank you, and just as separately, going back to your Canadian gas operations, we've seen some green shoots and momentum on LNG exports in BC. Can you comment on the potential to maybe reinvigorate your offshore LNG initiative that was shelved a few years ago and what that might take in terms of industry fundamentals or other attributes to come to the forefront again?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Well, I think first is our liquids export from propane export terminal is really energizing producers and looking more to export opportunities. I think the discussion around LNG at Kitimat's also. I can tell you that Asian buyers are looking very favourably to Canada for energy and so I would—and our partners, Idemitsu, are still working with us to pursue opportunities long term on LNG. So we still see that but as we'd said a long time ago, LPG was a—we thought would be the first off the gate for us due to much simpler process to get barrels to Tidewater.

Linda Ezergailis – TD Securities – *Analyst*

Okay. Thank you, and maybe just one final small operational question. Can you comment on how your operations at Younger have changed with the change in operatorship? And I believe it was a positive effect in the quarter. And will that be systemically positive and consistent going forward? And then also, if you have available the magnitude of the amount to the onetime payment from the new operator to AltaGas, that'd be appreciated as well.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Randy and Tim?

Tim Watson – AltaGas Ltd. – *EVP & CFO*

Yeah. So with the—there was a 20-year contract that changed come April 1st and that changed the ownership and then that kind of provided Pembina to be operator. So of course, we would prefer to be operator but we're comfortable with Pembina being the operator. We can't get into all the details of the onetime payments because there's a couple—a few there—but it was approximately $4 million in total.

Linda Ezergailis – TD Securities – *Analyst*

And the—

Tim Watson – AltaGas Ltd. – *EVP & CFO*

It does give us a bit more control probably on the liquid side which is going to fit nicely with our RIPET project, too.

Linda Ezergailis – TD Securities – *Analyst*

Okay. Thank you.

Operator

Your next question comes from Robert Kwan with RBC Capital Markets. Your line is open.

Robert Kwan – RBC World Markets – *Analyst*

Good morning. Now that you've closed WGL and maybe the spotlight of other stakeholders listening in has gone away, can you talk about are there any changes in how you're seeing the opportunities with the WGL assets? Has anything new come up since the original messaging or, on the other side of that, any opportunities that you were particularly enthusiastic about out of the gate have maybe gone to the backburner?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Answering the last question first, nothing that we've seen has gone to the backburner. I would say that in the presentation last week, I think the growth opportunities, with respect to WGL, both that we're seeing from a new customer adds and replacement and betterment I think is slightly better than, at least at the board level felt and so I would say we're quite optimistic with respect to that part.

Robert Kwan – RBC World Markets – *Analyst*

Okay. And then turning to financing, one of the earlier questions around how you might be thinking about using common equity. And yeah, the valuation today might point to equity assurance over asset sales but you've also expressed being optimistic around the long-term growth. And so, kind of with that, does it factor into the thinking that even though the valuation multiples might point to issuing equity today, you are effectively diluting future growth on a per share basis? Does that factor in materially into your thought process?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

That's clearly a factor in our thought process. We will look at all factors and I think coming back to long-term sustainability and growth and shareholder value and stakeholder value, growth in value factors in. So I guess what I would say is that we're seeing more growth than we anticipated or growth opportunities, and we're sitting down as a team and seeing how we prioritize those growth opportunities. But it's far stronger, especially since the last call, I would say, that we're seeing across the board.

Robert Kwan – RBC World Markets – *Analyst*

Understood, and if I could maybe just finish, I think this would be a question for Adrian. You outlined that in Maryland and Virginia your applications for base rate increases and it sounded like there are some existing surcharges that are in place right now. So if that's correct and you look at the net amounts, is that pure regulatory lag? Or are some of what's in the base rate increases also against projected cost?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Adrian?

Adrian Chapman – Washington Gas – *President & CEO*

Thank you, David. So as I went through each of those, part of each of those cases is to roll in the surcharge recovery that we had built up as we made replacement investments in the previously approved programs. And so if one looked at the Maryland numbers that I gave, the overall increase was going to be, in US dollars, $56 million. We netted in $50 million of the surcharges that were giving us concurrent recovery and very timely recovery and so that recovery will continue as part of that $56 million.

The net, the $41 million in Maryland in US dollars would then reflect non-revenue producing capital investment that we've made over the last five years. An example of that would be our new billing system, SAP billing system that we put in place last year and any O&M increases that we've accrued. So that's at least that piece of the revenue puzzle right there.

Robert Kwan – RBC World Markets – ***Analyst***

Okay, and would that be similar for Virginia as well?

Adrian Chapman – Washington Gas – ***President & CEO***

And so in Virginia, the numbers that I used, we had an overall increase of US$38 million and in that $38 million there was $50 million of surcharge recovery that got transferred in. So that surcharge recovery was current recovery on the plant investment that we had made since the last rate case. That gets rolled into rates so we continue to get that recovery. The net of that, just under US$23 million is to reflect non-revenue producing plant investment since the last case and any O&M increase.

Robert Kwan – RBC World Markets – ***Analyst***

Got it, so both net numbers are pure regulatory lag? Or put differently, would drop right to the bottom line if approved and full, is that correct?

Adrian Chapman – Washington Gas – ***President & CEO***

That's correct. Yes.

Robert Kwan – RBC World Markets – ***Analyst***

Great, thank you.

Operator

Your next question comes from Robert Catellier with CIBC Capital Markets. Your line is open.

Robert Catellier – CIBC World Markets – ***Analyst***

Hi. Good morning. I just wanted to probe a little bit deeper on a couple of areas. First of all, with respect to the dividend growth outlook, what has to happen in terms of executing the funding plan or other objectives to reset the visible dividend growth rate? And what has to happen to achieve dividend growth rate that was within the bounds of the previous 8 to 10 percent guidance?

David Cornhill – AltaGas Ltd. – ***Interim Co-Chief Executive Officer***

What we are doing is, first remember that the 8 to 10 guidance was a lifetime ago—17 months. The market has moved. We're looking to balance our growth activities and maximize the value of our resources and allocate properly.

So at this point we are resetting a far more bullish growth forecast in gas than we had seen 17 months ago and so we're looking to how to best invest our financial resources and how to provide the maximum return to shareholders—both in a dividend and share appreciation basis. So that's where we are.

You must remember its 17 months of regulatory process that we've been in, and so the world has changed from that and we're re-evaluating where that is. We still see growth of dividends important and we will continue to work on sustainability and growth of dividends going forward.

Robert Catellier – CIBC World Markets – ***Analyst***

And so just with respect to timing, David—that new policy?

David Cornhill – AltaGas Ltd. – ***Interim Co-Chief Executive Officer***

Our next board meeting, official board meeting is at the end of Q3.

Tim Watson – AltaGas Ltd. – ***EVP & CFO***

And remember, Robert, this is similar last year—we went through Q3 and provided updated dividend guidance at that time.

Robert Catellier – CIBC World Markets – *Analyst*

Yeah. And also, Tim, if you were necessarily—you gave a wide range of—I think you said next several months to complete the or to advance the asset sales. Wondering if you could maybe tighten that range up or better give us a little bit more clarity in specifically how much you expect to accomplish in 2018? In other words, is it possible that we get the entire asset sale program announced within the second half of 2018?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

It's David. We will—clearly that's the marching orders that we're working to—to have it done in 2018.

Robert Catellier – CIBC World Markets – *Analyst*

Okay. And then my last question was on Mountain Valley Pipeline. It had some, I guess, some setbacks in the regulatory front when a little bit of a movement in its in-service date. I'm wondering if the cost of that project is at risk and if the spending increases, what it means to returns, if it eats into the expected returns?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Well, I clearly can't answer…either Tim or Adrian...Tim?

Tim Watson – AltaGas Ltd. – *EVP & CFO*

Yeah. I'll start and then, Adrian, please jump in or correct me as you see fit. We do not see a material impact from the quarter delay from Q4 2019 into Q1 20—from Q4 2018 into Q1 2019, we do not expect a material impact on the returns from our investments in Mountain Valley.

And, Adrian, I don't know if you have any other colour or not.

Adrian Chapman – Washington Gas – *President & CEO*

No. I think any anticipated increase in costs that may arise is already embedded in the plan that we had put forward.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

I guess you should look for the operator to take the lead in terms of any announcement on that project.

Robert Catellier – CIBC World Markets – *Analyst*

Right. Okay, thank you.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

And we did, Robert, we did state right in the MD&A, the capital we expect and how much we've incurred to date. So it'll give you a nice clear picture.

Robert Catellier – CIBC World Markets – *Analyst*

Thank you.

Operator

Again, if you would like to ask a question, press *, then the number 1 on your telephone keypad.

Your next question comes from Patrick Kenny with National Bank Financial. Your line is open.

Patrick Kenny – National Bank Financial – *Analyst*

Oh hi, guys. Just on the rate-based guidance for Utilities growing to $7 billion by 2021, it looks to be down from $8 billion in your June presentation. Just wondering does that now reflect an expectation of selling down a billion dollars' worth of rate base, or has the stand-alone growth outlook for that segment been revised down?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

I'll let Tim.

Tim Watson – AltaGas Ltd. – *EVP & CFO*

Yeah. I'll start—others jump in, if you want.

There's no real consistency on that, Patrick. The previous number which showed going from $5 billion to $8 billion would have been on--call it a gross basis before depreciation. We think it's probably better to show it on a net basis so therefore, the $5 billion to $7 billion is on a net basis, which picks up both growth as well as your standard depreciation over time—simple as that.

Patrick Kenny – National Bank Financial – *Analyst*

Okay, got it. And then just on the funding, so given the US hybrid market can be somewhat fickle, if that market is not open to you in the back half of the year, would you look to backfill the $800 million or so with perhaps tapping the Canadian term debt or preferred share markets? Just wanted to get your thoughts on what a plan B might look like to pay down the bridge outside of additional asset sales or issuing more equity.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Well I think, we've got a plan to, on asset monetization, well above our target. We'd look at those--we've got several other contingencies, some you have talked about but I think we expect it to be there. But that's why we've got more than enough opportunities to meet our funding requirements to our bridge so we don't have to rely on the success of one thing.

Patrick Kenny – National Bank Financial – *Analyst*

And, David, it might have been touched on in the past but given the desire here to realign the asset base, can you confirm that you'll be maintaining your 65 percent ownership of Northwest Hydro? Or is selling down to 49 percent maybe still on the table at this point, given the price tag you were able to achieve on the 35 percent sale?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

We will maintain a majority interest in that facility and we don't anticipate independent sale of that asset at this time.

Patrick Kenny – National Bank Financial – *Analyst*

Okay. That's it for me guys. Thanks.

Operator

Your next question comes from Elias Foscolos with Industrial Alliance. Your line is open.

Elias Foscolos your line is open.

Elias Foscolos – Industrial Alliance – *Analyst*

Sorry, I was on mute.

Good morning. I've got a question that is related more to the CEO search. Given that the search will probably take a three to six-month process and I think it was pretty clear in the call, but I want to confirm, that the hybrid financing and asset monetization will be on track regardless of a new CEO and I'm going to add the caveat given that new CEOs tend to have their own flavour and like to put their own stamp on things.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Yes. We'll have a clear—our mandate—Phil and my mandate is to have the company ready for the new CEO. We're not holding back. We're moving forward with our strategy and that new CEO will know what that strategy is from the board going forward so it will be totally clear.

Elias Foscolos – Industrial Alliance – *Analyst*

Okay. And one more question related to the CEO. Would you have some sort of bend towards a CEO that understands the current asset base, which would tend to be more American, or will it be focused more on sort of the growth, or you're open to anything where the assets would grow, which would be maybe gas related?

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Well, I think we've got a strategy and good near-term growth. We'll clearly look for a CEO maybe like Gretzky said, we want a CEO that knows where the puck is going to be and can provide the leadership going to the future. So that's what we're looking for in a new CEO.

Clearly our understanding being a senior leader that can manage people and lead people and understand the businesses we're in but we see the opportunity beyond that in clean energy infrastructure.

Elias Foscolos – Industrial Alliance – *Analyst*

Great, that's it for me. Thanks very much.

David Cornhill – AltaGas Ltd. – *Interim Co-Chief Executive Officer*

Thank you.

Operator

There are no further questions at this time. I will turn the call back over to Jess Nieukerk.

Jess Nieukerk – AltaGas Ltd. – *Senior Director Investor Relations*

Thank you, Operator. That concludes AltaGas' Second Quarter 2018 Conference Call. The Investor Relations team is available throughout the day for any other additional questions you may have. Thank you.

Operator

This concludes today's conference call. You may now disconnect.