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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the AltaGas Fourth Quarter 2018 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being broadcast live on the Internet and recorded.

I would now like to turn the conference call over to Adam McKnight, Director of Investor Relations. Please go ahead, Mr. McKnight.

Adam McKnight

Thanks, Chris and good morning everyone. Thank you for joining us this morning for the AltaGas Q4 2018 Financial Results Conference Call. Speaking on the call this morning will be Randy Crawford, President and Chief Executive Officer, and Tim Watson, Executive Vice President and Chief Financial Officer. We're also joined here this morning by several other members of our executive team to help these guys out with the tough questions, because as always, today's prepared remarks will be followed by an analyst question and answer period and I'll remind everyone that the Investor Relations team will be available after the call for any follow up questions or any detailed modeling questions that you might have.

This call is webcast and I encourage those listening on the phone lines to view the supporting slides available on our website. A replay of the call will be available later today and a transcript will be posted to our website as well.

Before we begin, I'll remind everyone that we will refer to forward-looking information on today's call. This information is subject to certain risks and uncertainties as outlined in the forward-looking information disclosure on slide two of this presentation and more fully within our public disclosure filings on both the SEDAR and EDGAR systems.

And with that, I'll now turn the call over to Randy Crawford.

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

Thank you, Adam, and good morning. It is my pleasure to welcome you to our fourth quarter 2018 results call. Before I dive into our 2018 operational highlights and near-term priorities, I want to provide you with an update since the call we held in December on my fourth day in the CEO seat.

During that call, I outlined a strategy that would restore AltaGas financial strength and position us to capitalize on significant growth opportunities of our midstream and utility businesses. Now nearly three months in, my view of the strength and opportunities of AltaGas assets remains unchanged.

These assets provide a strong foundation to deliver growth at attractive returns and to deliver operational and financial performance that our shareholders expect. I continue to believe that our strategy is the right one and we will deliver strong organic growth. Later in this call, I will provide you some insight on how we will get there.

I believe we will look back on 2018 as a transformational year, which saw AltaGas reposition itself through the WGL acquisition, as a low-risk, high-growth utility and mid-stream company. In order to leverage the full growth potential of these assets, we must continue to strengthen our balance sheet and ultimately reset our financial position. With our RIPET project coming online in early spring, as the first propane export terminal in Western Canada, we are poised to execute on our strategy to leverage this unique capability to attract new producer commitments that will increase utilization of our existing assets and provide new organic investment opportunities.

At the same time, I see ample opportunity in our US utilities to renew and extend our distribution pipelines and drive higher returns through operational efficiencies, superior customer service, accelerated rate recovery mechanisms, and periodic rate cases.

Given the magnitude of the transformation that took place in 2018, some significant accomplishments we had last year may have been overlooked. In our midstream businesses, we continued to leverage and extend our footprint in Northeast British Columbia, attracting more volumes to our value chain. We've achieved a 25% increase in our gas processing volumes through our core Montney assets, primarily driven by our Townsend facility. The agreements we announced with Black Swan and Kelt will enhance our NGL capture area, triggering an expansion of our North Pine facility and provide propane supply through tolling arrangements to RIPET.

At our utilities, we are increasing the level of capital that is recovered through the accelerated pipeline replacement programs in 2019 by over 40% compared to 2018. We also implemented new base rates at WGL in our Maryland and Virginia jurisdictions.

At SEMCO, we began the construction of our Marquette Connector Pipeline, which is scheduled for completion by year end 2019. Timely recovery of this investment is expected to begin in the first quarter 2020.

On another note and something we are quite proud of, Washington Gas was recognized for the second consecutive year as the most trusted brand among residential utility customers in a Cogent report study released by Market Strategies International. This type of performance is critical to our operational excellence strategy and part of our platform for growth.

The growth potential of our asset base is significant. In order to realize this growth, we need to remain focused on delivering on the balanced funding plan we outlined in our December call. The concrete measures we've identified will shore up our financial position so that we can capture the full value of our opportunity set going forward. This remains one of my top priorities.

With this work well underway, we must also explore how we best optimize our assets and unlock their full potential. To do this, we must be relentless in driving operational excellence and delivering accelerated and superior returns in every corner of our business. A critical component of this plan is driving a performance culture at AltaGas. In 2019, we are rolling out a new value driver model that sets clear expectations and drives enhanced performance. With the right values and leadership, I am confident that we will deliver on our plan to enhance operational excellence, grow the business profitably and achieve the appropriate returns.

An important component in our balanced funding plan is our asset sales. These sales align our business to assets that complement our platform in midstream and utilities, further de-lever the balance sheet and provide an efficient source of capital to fund growth. In 2018, we successfully monetized CAD 3.8 billion in non-core assets, which included the sale of our remaining 55% interest in Northwest Hydro that we closed in January.

In 2019, we plan to sell an additional CAD 1.5 billion to CAD 2 billion in non-core assets. First steps in the execution of these sales are well underway. We are pursuing a number of processes simultaneously and we are confident with our ability to get this done throughout 2019. The value of the portfolio of assets we have identified is significantly greater than our target and we have had strong interest and engagement from high quality counterparties to date. Therefore, we have flexibility to choose the assets that maximize valuations. We expect that the total asset sale program will be accretive to FFO and other metrics.

With that, I am now going to turn things over to Tim, who will provide a more detailed review of our 2018 financial results and 2019 outlook. Once Tim has concluded his remarks, we'll take a closer look at our core business segments and provide a little more color on the opportunities we have ahead of us.

Timothy William Watson - AltaGas Ltd. - Executive VP & CFO

Good morning everyone. I will provide an overview of 2018 financial results, before turning it back to Randy for the discussion of operations and strategy.

As we move into 2019, we've taken significant steps to strengthen the financial position of AltaGas and have a clear line of sight on high quality growth opportunities, which reflect the underlying strength of our business. Randy will speak further to that shortly.

Looking back at 2018, there have been many moving parts in our business, given the closing of the WGL transaction in July and as significant asset sales completed. I'll look to provide some clarity as I take you through the financial results in 2018.

Let's start with the fourth quarter results. As you will now see, our utilities and midstream businesses make up the large majority of our earnings and will be the drivers of our growth going forward. Overall normalized EBITDA for the quarter came in at CAD 394 million, up CAD 181 million from CAD 213 million or 85%. Utilities represented 58% of total Q4 EBITDA with midstream 23% and power at 19%.

As you would expect, the WGL acquisition accounted for much of this increase. WGL contributed CAD 223 million, in Canadian dollars that is, comprised of CAD 159 million from utilities, CAD 31 million from midstream and CAD 33 from power. During the fourth quarter, we clearly benefited from WGL seasonality as compared to the third quarter, which I'll come back to later in my remarks. Setting aside the positive contributions of WGL, the results within our legacy utility midstream segments before assets sales were generally stable for the quarter.

So beginning with utilities, Q4 results were in line with our expectations. Higher firm revenue due to higher rates, strong customer growth and a higher usage contributed positively and a favorable FX rate versus Q4 2017 contributed CAD 3 million. This is partially offset by slightly warmer weather overall in the quarter, in particular at ENSTAR and at WGL, which had extremely cold weather in December of 2017.

US tax reform had a CAD 21 million negative impact, that's Canadian dollars, however this EBITDA impact does not flow through to our net income where there was in fact a positive CAD 8 million impact overall from US tax reform. WGL utilities also had higher O&M mediation costs.

In the midstream segments, contributions to the new Aitken Creek facility in Northeast BC, along with higher Townsend volumes and Harmattan fee for service revenues were partially offset by slightly lower realized frac margins of CAD 16 a barrel versus CAD 18 a barrel in the quarter. Lower NGL marketing margins and a reduced ownership interest in the younger facility. The WGL contribution to midstream included the first quarter from the Central Penn Pipeline investment and higher transportation margins. While both storage spreads, as well as retail and gas marketing margins at WGL were lower than the previous year.

In the power segment, the addition of the WGL distributed generation business, including new projects placed into service in Q4, along with the CAD 2 million positive impact from the favorable FX rate, were partially offset by the CAD 9 million impact of lower water flows at Northwest Hydro, CAD 2 million from the Ripon PPA expiry in May 2018 and lower retail power marketing margins in the Northeast US.

Asset sales reduced Q4 2018 EBITDA by CAD 36 million. This included the sale of the San Joaquin power facilities in California with an effective date of early September and the AltaGas Canada IPO, which closed on October 25. Overall in the quarter, the higher Canadian US exchange rate, which was 1.32 versus 1.27, increased EBITDA by CAD 5 million versus Q4 2017.

Normalized funds from operations for the fourth quarter 2018 were CAD 255 million compared to CAD 175 million in Q4 2017, reflecting the same drivers as EBITDA, but also partially offset by lower income tax recoveries and higher interest expense.

Normalized net income was CAD 120 million for Q4 2018, compared to CAD 63 million for Q4 2017. Note that while 2018 benefited from less than half a year from WGL's contribution while having the full transaction costs, including financing, 2019 will be more balanced with the full year of combined operations.

During the fourth quarter, AltaGas received CAD 3 million of preferred share dividends from Petrogas, similar to the previous year, and also CAD 2 million in common share dividends versus CAD 1 million in 2017.

Now turning to total overall performance in 2018, normalized EBITDA was just over CAD 1 billion. This is up CAD 212 million or 27% year-over-year from CAD 797 million in 2017, which is largely in line with our expectations. Clearly the single biggest reason for the higher EBITDA in 2018 was the WGL acquisition that closed in the third quarter, as that contributed CAD 255 million.

Other key business factors in 2018 had a slightly positive combined impact on EBITDA. These included favorable contributions from new assets at Townsend 2A, Aitken Creek and North Pine, about CA 18 million. Gas commodity margins, about CAD 17 million. Utility rates and growth, about CAD 10 million, favorable weather at utilities, about CAD 4 million. And corporate income about CAD 4 million partially offset by lower Northwest Hydro generation That impact was CAD 19 million. Lower storage and NGL marketing, CAD 7 million impact. The Ripon PPA expiry, CAD 6 million impact. Lower Petrogas contribution for the year, CAD 5 million and lower contribution from Blythe and Biomass CAD 6 million.

The slightly stronger average FX rate for 2018 versus 2017 lowered EBITDA by CAD 2 million for the year. US tax reform impact on utilities, including WGL, was CAD 35 million for the full year, but that was only about 3% of our total EBITDA in the year. And asset sales lowered our 2018 overall performance by CAD 36 million, similar to what it was in just Q4.

Putting these all together, the 27% increase in EBITDA for 2018 relative to last year falls within the 25% to 30% guidance range for year-over-year growth in 2018 that we previous provided. Normalized funds from operations for the full year, or FFO as we call it, were CAD 657 million equal to CAD 2.95 per share. This is up CAD 42 million of 7% over last year, which was just below our 10% expected growth year-over-year.

The slight disconnect between achieving our EBITDA versus our FFO guidance is primarily due to a timing issue associated with the receipt of the cash distributions from our equity investments in AltaGas Canada and Central Penn Pipeline. For both investments, we did not physically receive or actually receive the cash distributions until the first couple of days of 2019. So although the proportion of net income for those two investments does appear in our earnings statements, the cash does not show up in our cash flow statements for Q4 as represented by the FFO measure. Weaker results from Northwest Hydro due to lower water inflows also had a proportionately larger impact on the 2018 FFO.

Just a quick comment on total capital in 2018. It was about CAD 1.2 billion, which was within expectations.

Turning to slide 11, which summarizes our Q4 and full-year segmented EBITDA results, listed on the right-hand side of this slide are the key drivers for EBITDA year-over-year within each segment. There's a lot of numbers on this chart and I've reviewed most of the drivers already on the previous slide, so I'm not going to go through this in any great detail. However, I do want to highlight that the results are up year-over-year for all of our segments, even after the impact of asset sales. The improvement in the corporate segment was due to the higher allocations to business segments, as well as higher interest income earned and lower operating costs.

You can start to see there the impact of the WGL acquisition on our business mix year-over-year. As we've mentioned, phases 1 and 2 of asset sales totaling CAD 3.8 billion were announced in 2018 and all completed by early this current year. The primary impact of 2018 results was from the sale of the California power assets in the AltaGas Canada IPO. Although we sold 35% of Northwest Hydro for CAD 922 million in 2018, we continued to consolidate that investment into 2018 results. But of course, going forward in 2019 it will no longer be included. Therefore, in 2019 the power segment's contribution will be lower than what it shows here on this slide for 2018.

Now shifting gears to our capital program and funding plan for 2019. As Randy noted, in December of last year we announced our balance funding plan for 2019. The plan was specifically designed to regain our financial strength, enhance our financial flexibility and optimize our cost of capital. You'll recall that the plan consists of CAD 1.3 billion of capital investment, focused primarily on high quality organic growth projects in our midstream and US utilities businesses. The plan outlined a series of steps that we are taking to de-lever and to strengthen our balance sheet. This will allow us to efficiently fund our capital growth in the midstream and US utilities businesses, while maintaining our investment grade credit rating.

Moving to slide 13. We have a rich and diverse platform of organic growth opportunities available to us, so disciplined capital allocation will be vital to creating value for our shareholders as we strengthen our balance sheet. To that end, we've identified CAD 1.3 billion of only the highest quality projects that we plan to allocate capital to in 2019. While our initial opportunity set was much broader, the projects we have identified align with our focused strategy, provide us with ongoing organic growth potential, a favorable risk profiles and strong risk adjusted returns and provide immediate payback.

Almost 90% of our 2019 project capital will be spent within the utility and midstream businesses where we see the greatest opportunities. This includes CAD 112 million allocated to the completion of the Mountain Valley Pipeline in 2019 and I'll remind you that we have certain protections in place to limit the capital that AltaGas is exposed to on that particular project.

Moving to the next slide and our funding plan. We've designed the 2019 plan to de-lever and stabilize the balance sheet through a combination of asset sales, disciplined capital allocation and a repositioning of our dividend. We have a total capital plan in 2019 of approximately CAD 4.9 billion. This includes the CAD 1.3 billion in capital projects I just mentioned, along with over CAD 800 million in debt maturities across the enterprise for total funding requirements before de-levering of CAD 2.1 billion. The balance of the uses that you see on the slide in the capital plan are for debt repayments.

As you can see from the breakdown of the sources of capital on the right-hand bar, after the dividend reset, we expect to retain approximately CAD 680 million in cash flow, net of preferred dividends and common dividends. This is also inclusive of the DRIP, although the DRIP amounts are expected to be immaterial in 2019. We expect WGL utility to access the debt markets for the Canadian equivalent of approximately CAD 300 million to finance capital and debt maturities at that utility level. The sale of the remaining 55% in Northwest Hydro raised CAD1.37 billion and closed already. And finally, the remaining phase 3 asset sales are expected to generate the additional funding of CAD 1.5 billion to CAD2 billion with an expectation at the high end of this range.

That concludes the sources of the funding. So when you add it all up, after funding our CAD 1.3 billion capital program, we expect to pay down over CAD 2 billion in debt this year. And this is before any hybrids or preferred share issuances, or any new term debt MTN issuances by AltaGas, which we will consider on an opportunistic basis consistent with how we thought about those in the past.

So when you combine over CAD 2 billion in debt repayments, as I just highlighted, along with the CAD 560 million of net debt maturities that are repaid, this would bring total debt repayments for 2019 to approximately CAD 3 billion and potentially more.

In summary, we are extremely confident in our ability to execute on the funding strategy and we've already made substantial progress, which has resulted in a material decrease in debt since the 2018 year end. I should also note that the remaining CAD 1.2 billion on the bridge facility that was used to fund a portion of the WGL transaction has been refinanced with a new revolving credit facility. This provides enhanced financial flexibility overall and lowers costs.

This brings me to the investment grade credit rating, which is fundamental to our strategy. It provides us with greater financial flexibility and stronger cost of capital supporting growth going forward. We designed our 2019 capital and funding plan with the very clear goal of maintaining investment grade credit ratings. On December 19, 2018, S&P assessed AltaGas a long-term issuer credit rating of BBB minus with a negative outlook pending the execution of our remaining CAD 1.5 billion to CAD 2 billion of asset sales. This was consistent with our expectations. We were very engaged with S&P leading up to our December 13th guidance conference call as they were concurrently completing their annual review. I should also note that AltaGas has long-term issuer credit ratings at Fitch, BBB mid and DBRS, BBB low, respectively.

AltaGas' business risk profile has been strengthened over the past year with regulated utilities becoming the largest business, and then followed by contracted midstream business there and that being the second largest, and finally power as the smallest other three business lines.

Our credit profile is expected to improve significantly through 2023 as we continue to execute our growth capital program and new projects and our service. We expect our FFO to debt ratio to move comfortably into the 13% to 15% range, and we see debt to EBITDA in the 5% to 5.5% times range, starting at the higher end of 2019 and improving over that planning period.

The debt to capital ratio is forecast to be in the low 50% range starting this year, which is well below our 65% to 70% covenant levels. Given our significant successes over the course of 2018 and monetizing noncore assets, including completing the sale of Northwest Hydro, we are confident that we can execute on our remaining asset sales in a timely fashion, which will help support our credit profile.

The next couple of slides reaffirm the consolidated outlook for 2019 that we rolled out on December 13th. I'm not going to run through those numbers again, but I would like to emphasize that we remain comfortable in our consolidated normalized EBITDA guidance range of CAD 1.2 billion to CAD 1.3 billion. This factors in the remaining phase 3 asset sales in 2019, along with the recently completed sale of Northwest Hydro. For 2019 guidance, which includes the first full-year with WGL, we expect our utilities business to be the largest at just over 50% of total EBITDA, followed by midstream. On a combined basis, utilities and midstream will represent almost 90% of total corporate EBITDA.

Our 2019 guidance assumes an average FX rate of 1.32. As a reminder, for every CAD 0.05 change in that FX exchange rate, there's an approximate CAD 36 million impact on our 2019 EBITDA, which is less than 3% of our total.

Other key sensitivities to keep in mind for 2019 EBITDA include for every CAD 1 per barrel change in frac spreads, the impact's about CAD 1 million. For every tenth percent change in gas processing and extraction inlet volumes, that's about CAD 16 million impacts on EBITDA. And a new one -- that we disclosed here and it pertains specifically to our new RIPET project. For every US $0.02 change per gallon in the Asian-North American propane spreads, EBITDA is impacted by about CAD 8 million Canadian.

Slide 19 shows the breakdown of our EBITDA guidance, moving it to funds from operation. And then adjusted funds from operations and finally the UAFFO, which is just AFFO less our utility depreciation. Again, I'm not going to go through the numbers, but we're comfortable in our previously disclosed guidance for FFO, as well as AFFO and UAFFO.

The last slide that I'll review just provides a summary of the seasonality that we expect to experience this year within our utility and midstream businesses. As you'd expect, our utility business traditionally experiences some significant seasonality with the first quarter accounting for close to half of the annual EBITDA contribution for that segment. Seasonality within the utilities business is driven by a couple of factors on the revenue side of the equation, colder weather in the winter heating months drives higher net revenue or distribution charges. This revenue seasonality is further compounded by O&M expenses that vary somewhat throughout the year, maintenance and repair or leak remediation work tends to be higher during the summer months when weather is favorable.

Seasonality within the midstream business is fairly stable. However, the segments will benefit throughout 2019 from contributions from new facilities that are placed into service during the year. This includes RIPET, the Townsend 2B expansion, North Pine train 2, Aitken Creek, and the Mountain Valley Pipeline.

That concludes my remarks, so I'll now turn the call back over to Randy.

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

Thank you, Tim. As Tim outlined, our midstream and utility segments are being allocated as the lion's share of our 2019 capital budget, a trend that we will continue in the years ahead. As such, these businesses will be the driving force behind AltaGas' future earnings growth.

To ensure that we capitalize on this investment, we must stay laser focused on executing our strategy. That is to leverage and enhance our expertise in asset footprint to maximize the value of our midstream and utilities segments. In our Canadian midstream business, we have developed a unique asset footprint. The integrated platform and unique value proposition we have established, firmly anchored by RIPET, is attractive to our customers and provides a competitive advantage that is difficult for others to replicate. RIPET has the first propane export terminal off Canada's West Coast, is uniquely positioned to access global markets from the West.

Overall, facility construction is nearing completion and commissioning activities are underway. Quality assurance testing has been completed on the propane storage tank, and we are on track to introduce propane feedstock by the end of the first quarter.

We have successfully hit all critical milestones and members of the operation team are now onsite to initiate a smooth transition with the first cargo expected in early Q2. In fact, just last week the first ship was christened in Japan, aptly named Maple Gas. Once RIPET is operational, Maple Gas will become the first VLGC to transport Canadian liquid propane gas to Japan, delivering 20 to 30 cargoes or 1.2 million tons of LPG per year.

We have successfully secured the initial 40,000 barrels per day of supply for the terminal and agreements around off take are progressing as planned. Our team has spent years laying the foundation, developing the individual midstream assets that link together to create our Northeast BC strategy and RIPET brings it all together.

Through these complementary assets, we are positioned to offer our customers a complete solution for propane. As we move our producers' product through each step in our value chain, gas gathering and processing, liquids handling, fractionation to export, we see significantly better economics from an integrated value proposition when compared to being one dimensional. Driving towards CapEx to EBITDA multiples of approximately 6x or better. Beyond that, we see significant growth potential through organic expansions that leverage and enhance our Montney footprint, as well as our ability to expand RIPET for minimal capital investment. This will significantly enhance total cash flows and returns from these assets.

To that end, I am pleased to announce that AltaGas has recently entered into definitive agreements with Tourmaline Oil Corporation for the provision of certain liquids handling arrangements relating to Tourmaline's liquids rich Montney development at Gundy. The liquids handling arrangements will be supported by AltaGas existing liquids infrastructure in Northeast BC, as well as certain new infrastructure to be jointly constructed and owned by AltaGas. The marketing agreements associated with liquids infrastructure will see AltaGas secure incremental propane supply for RIPET under a tolling arrangement with Tourmaline. The transaction showcases our integrated value proposition and further diversifies the strengths, the Northeast BC strategy and customer base by partnering with Canada's second largest natural gas producer and one of the largest producers in the Montney.

We can clearly see how we are going to achieve growth in this segment. New assets in service drive EBITDA growth by 30% to 40% in 2019. And this is only a partial year for RIPET and the second Aitken Creek processing plant. We see even more growth in the coming years as assets like the second train at North Pine and the expansion at Townsend comes into service. I am very excited about the growth of this business.

Now turning to our utilities. As I said before, my utility segment is an integral part of our business, as it balances our portfolio and provides regulated low risk growing cash flows. With the acquisition of the Washington Gas assets, our US utility businesses have a rate base of US $3.7 billion and operate in five constructive regulatory jurisdictions, Virginia, Maryland, Michigan, Alaska and the District of Columbia. We have accelerate replacement programs in place in four of these jurisdictions with capital investments of approximately US $1.2 billion spread over the five years that will earn immediate return through these surcharge mechanisms.

We also have healthy customer growth and system reliability projects that provide investment opportunities to serve new customers and continue our steady rate base growth. Take for example our Marquette Connector Pipeline, which is currently under construction in Michigan. With this project, we are putting approximately US $142 million of capital to work to improve the long-term reliability of our pipeline system and connect new customers. This investment is aligned with the timing of our 2019 SEMCO rate case such that it will generate timely recovery of this important capital investment.

Overall, we have a solid utility business with some great fundamentals. Having said that, we have some work to do. I often reference operational excellence as an integral part of our strategy. As it relates to our utility business, I define operational excellent as operating a safe and reliable system, creating operational efficiencies, providing excellent customer service and earning our allowed rate of return.

It is also critical that we maximize the utilization of accelerated rate recovery mechanisms. This will allow us to maintain our record of success in safe and reliable operations and to obtain our return on invested capital in a timely manner.

By increasing the percentage of capital that is deployed into accelerated replacement programs, we will benefit not only from the rate base growth, but also achieve more timely returns on investment and minimize the need for future rate cases.

One of the benefits associated with this capital recovery mechanism is it incents the company to replace additional aging infrastructure above the traditional benchmark of depreciation levels, which improves the overall integrity of the system. It also allows the company to earn a more timely return on this higher level of investment. Importantly, the replacement of aging pipelines will eliminate leaks and drive our maintenance costs down over the long run, benefiting all stakeholders. As such, our goal is to recover all pipeline replacement capital investment in excess of depreciation to this mechanism. We are making progress in managing our maintenance capital in this way and will continue to focus on reaching my stated goal.

In addition, we need to improve our return on capital already in the ground by taking a closer look at our operating expenses and ensuring we optimize every dollar spent. Some of this work takes time. We can't change it overnight, but make no mistake, change we will. In 2019, the focus of our utilities is to deliver on the plan and to position us to earn our allowed return.

In closing, 2018 was a transformational year. The WGL acquisition repositions AltaGas as a low-risk, high-growth utility and midstream company. To unlock the full growth potential of these assets, we are committed to continuing to strengthen our balance sheet. The unique value proposition we have established within our integrated midstream platform, firmly anchored by RIPET, is attractive to our customers and provides a competitive advantage. The marketplace continue to validate our strategic approach as evidenced by recent transactions with Kelt, Black Swan and Tourmaline.

Our US utilities provide us a tremendous growth opportunity. To accelerate a pipeline replacement we can drive rate based growth, achieve more timely returns, and minimize future rate cases.

Lastly, the execution of CAD 1.3 billion of high quality capital projects will leverage and enhance the strength of our asset footprint and provide strong EBITDA growth for 2019 and beyond. I am confident that 2019 will be a successful and defining year. The steps we are taking position AltaGas for significant success for years to come. I am excited about the possibilities that lie ahead.

Thank you.

Adam McKnight

We'd now like to turn the call over to the operator to facilitate the question and answer session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Robert Kwan with RBC Capital Markets. Please go ahead.

Robert Michael Kwan - RBC Capital Markets, LLC, Research Division - Analyst

Starting on asset sales here when you talked about having multiple processes and the ability to exceed the target based on the assets that you're considering, so I guess ultimately the ability to cherry pick the best valuations and create some tension in your processes. I'm just wondering though what's the willingness to go above the target range. And what would be a key driver from your perspective? Would it be further strengthening of the balance sheet and the funding plan with an eye of turning off the DRIP? Or would it be more about cleaning up the asset base to focus on the utilities in midstream?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

I think that at the end of the day it's a combination of the two. Obviously we have some significant growth opportunities at AltaGas and we're redeploying these funds into higher returning investments. But at the same time, we are focused on de-leveraging our balance sheet. And so as we look toward exceeding that target, our process here is to under promise and over deliver, and so we're focused on that. Obviously a key driver will be ultimately the valuations, but I feel very confident in where we are headed.

Robert Michael Kwan - RBC Capital Markets, LLC, Research Division - Analyst

And then I guess just turning to the business, you mentioned aspects such as improving performance to the utilities, which you mentioned at the outset of the call. Overhead and OpEx reductions across your business and then commercial activities for Canadian midstream. You see that with the Tourmaline deal. Just wondering as you kind of put all of that together and the types of activities that really carry minimal capital. What do you see as the EBITDA upside and over what timeframe do you think you can realize that?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

Currently we've given our guidance for 2019. You can see the growth that is in place relative to 2018, the 25% to 30% growth. And as I mentioned in my prepared remarks, that's with only a partial year of RIPET, as well as Townsend. And so I see consistent growth from both of our businesses, both our core utilities and midstream, but at this point as we work through the assets, I'm not prepared to sort of give the guidance post 2019. But you can clearly see that the opportunities ahead of us are very strong in terms of our growth potential.

And so I've been in the job a couple of months and we're not -- at this point to give that specific guidance into 2020, we're not prepared to do. But obviously I'm bullish on the opportunity to continue strong growth at AltaGas.

Robert Michael Kwan - RBC Capital Markets, LLC, Research Division - Analyst

If I can just finish with a question on RIPET. There's a statement you want to contract a majority of the capacity with the timing statement being over the next several years. I'm just wondering how does that kind of objective play into your thinking around a potential expansion.

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

I think obviously we see RIPET as providing the highest value of propane market in Canada. And we believe that we'll use that to expand all of our entire midstream business and really continue to leverage across all of our value chains. So I think what you'll see is we continue to prove out that value proposition and to capture the value associated with the Far East index, I think that we've got strong demand from the producer of community and from the off take. So I think that as we move through the year and we prove out the value proposition, I think we're going to be well positioned in the near term to look at expanding that facility. But we're going to get it online here early in the second quarter and we'll look toward expanding that later in the year or in the next year.

Robert Michael Kwan - RBC Capital Markets, LLC, Research Division - Analyst

So you don't need to be at that majority position before you go at the expansion?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

I think that we've got -- in terms of the -- we've got the 40,000 barrels a day firm and they've got the demand off take. So we will continue to work with the producer community as well as the Asian market.

And yes, I think what you'll see us is to continue to transition to more of a tolling structure as we go through the end of the year. But we'll be trying to think forward, but we'll -- we don't need to have this fully contracted, but we want to be confident in the decision, that we have the market going forward. So we don't need it fully contracted, but my philosophy is to ensure that we get our cost to capital in terms of any investments that we make and be positioned to do well in excess of that. Doesn't have to be fully committed because the incremental expansion cost is quite minimal.

Operator

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

Patrick Kenny - National Bank Financial, Inc., Research Division - Research Analyst

Just on the target leverage metrics here, the 5.5 to 5 times debt to EBITDA through 2023. This is up from the original pro forma target ratio of 4.5 times and I believe that also didn't contemplate selling the hydro assets at that time. So just wondering if you could walk us through why the 5.5 to 5 times is the optimal capital structure now, especially when some of your larger cap midstream utility peers are driving more towards the 4.5 to 5 times range?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

I'll start off, I'll let Tim comment. Clearly that's our target as we go through this year. But as we look at the asset sales and the valuations that we're receiving, ultimately over time we'll continue to improve that metric. Obviously with the resetting of the dividend, the cash flows that we're generating and the asset sales, we should be in a stronger position in the years ahead. But go ahead, Tim.

Timothy William Watson - AltaGas Ltd. - Executive VP & CFO

I would just say, Patrick, on the December 13th guidance call we were indicating 5 to 5.5, so we were not using 4.5. That might have been an earlier number, but certainly in the timeframe where we've cast our views out for the 2019 fiscal year we've been indicating 5 to 5.5 times.

So I think it's actually fairly logical when you look at it. There's some pure utilities in the marketplace that could be 6 or even a little bit north of 6 times. You've got some pure midstream companies that are -- they might be 3 to 4 times. We've got a healthy dose of utilities in our overall business mix as we described. So it's probably the right combination that results in that type of multiple target range.

Patrick Kenny - National Bank Financial, Inc., Research Division - Research Analyst

And then Randy, as you get to know your customers a bit better here and you think about counterparty risk, just given some of the commodity price headwinds facing the NPEs, not to mention their access or lack of access to the equity markets. Are there any take or pay agreements across report folio that might be giving you heartburn right now? And should we be expecting any contract renegotiations through 2019 to not only help your customer, but also mitigate that counterparty risk?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

Obviously we're always monitoring our counterparty risk in the credit profile of our customers and we work closely with those customers. I can't highlight anything that's on the horizon and we're beginning the growth strategy primarily in the BC market. So I think that we'll feel good about our counterparties. We'll continue to monitor that and work with our customers. But look, I feel very confident with our growth targets that we set out for 2019. and I think we'll continue to be disciplined and work with our customers to ensure that our producers are successful because with them they need to be successful for us to be successful.

Patrick Kenny - National Bank Financial, Inc., Research Division - Research Analyst

Last question if I could. The CAD 1.5 billion to CAD 2 billion of asset sales, you mentioned a number of processes underway. I'm just wondering if that CAD 1.5 billion to CAD 2 billion also contemplates the potential sale of your 37% interest in ACI once the lockup expires here in November.

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

As I said on the December call, we're looking at all of our non-core assets and you have simultaneous processes underway. That's an excellent asset, great company. But as I said in previous comments, we made a decision with the IPO and that asset is a non-core asset as I would define that. And so that's certainly something that we'll evaluate going forward.

Operator

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

Robert Catellier - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

You've answered the majority of my questions, so just a couple of cleanups here. When looking at RIPET and the potential expansion, notwithstanding you want to have reasonably confident you have access to the market. It doesn't sound like it's a lot of money to expand. What are the timelines like in terms of sanctioning the expansion if you -- so really what I'm after is the construction and permitting period.

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

No. Hey, Robert, fair question. This is Randy. I'm going to hand it to our President of Midstream, Randy Toone to address that.

Randy Toone

Our focus is to get the facility online and then understand the operational capability of the facility. The design, it does warrant for a fairly low capital expansion, but we really want to get it operating. Really understand its capabilities and line it up for the next contract year is April of 2020 would be really where we would be looking at any substantial increase. And so we'd have to go through the regulatory hurdles to meet that target.

Robert Catellier - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

So it's possible to get the regs done by -- and have it up and running by 2020?

Randy Toone

Potentially, yet.

Robert Catellier - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

And then just a little bit more clarification on the asset sales and should you exceed the CAD 1.5 billion to CAD 2 billion target. And it's not clear to me that what you would do if you got to that stage. You mentioned, Randy, that you could pick and choose which assets to sell depending on valuations. But if in aggregate they exceed your expectations, what -- I'm still not clear on the primary motivation. Would you be more inclined to make the additional sales to drive the leverage down so that you can address those additional growth opportunities in the future? Or would you just simply look at the valuation or some other metric and just decide CAD 2 billion's enough?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

I'll tell you, Robert, the dynamic process that we would look at ultimately the valuations that we're receiving. But philosophically, I'll just share with you my viewpoint on this is that we really are selling assets, lower returning assets and redeploying those funds into higher returning investments. Obviously as I said, we're also going to de-lever and provide financial flexibility to fund these higher growth opportunities we see in both our utility and our midstream business. So as we look toward exceeding that target, it would be a combination of both the continued investment in organic growth and maybe overall accelerating the de-levering of the balance sheet.

We'll look at what is the best opportunity with that currency going forward. What's the best value proposition for our shareholders?

Robert Catellier - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

And then when you look at the long-term per share growth rates, you kind of gave a -- I think it's a mid to high single digit rate based growth rate on the utilities. What do you think is possible in the longer-term in the midstream in terms of growth potential?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

Are you asking specifically for the midstream?

Robert Catellier - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

Yes.

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

As I said, we've got significant growth this year. We've only got three-quarters of a year in the Townsend investment. And so I don't want to give a metric and put that out there for 2020 or beyond. But we see very significant potential for growth going forward. And so I mean we could run a variety of scenarios on the expansion of RIPET for limited investment and those multiples could be quite significant.

But again, I think we're focused on executing this year and then those assets growing, cash flows, earnings growth and returns into 2020. And you should look for us though out the year. We'll be more prepared to give you a specific guidance number in the years out. But right now, we're not able to do that.

Robert Catellier - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

I appreciate your answer. It wasn't really trying to nail you down for 2020, but like sort of give maybe boundaries through 2023 what the potential's like. But I understand your answer. Thank you.

Operator

(Operator Instructions) Your next question is from Elias Foscolos with Industrial Line Securities. Your line is open.

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

I have two questions I think I'd focus on. First of all, is the Tourmaline announcement. Instead of focusing on EBITDA I think that was asked earlier, question I have is the contribution from that deal included in your EBITDA estimates that we received today? And also, maybe just following up on that, is it possible to give us a feel on capital if that is not included in the estimates also?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

First answer, yes, it's included in the estimates. And with respect to capital, it is included in the capital forecast as well.

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

On the CAD 1.5 billion to CAD 2 billion, again focusing a bit on the asset disposition, I'm trying to reconcile a number of things, but one question is kind of on the theme of over deliver and under promise. Timing on this, is there any possibility we could see something before the announcement of the Q1 results?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

You can appreciate that I don't want to give specific timing. I just refer back to my remarks in that there's numerous simultaneous processes going on and that we're competent in those processes. I don't want to commit that we'll have this or announcements for our first quarter call. We may, but again I'm not going to accelerate the process beyond where it is today. And so I'm confident in where we're headed, but I'm not going to be able to commit to that.

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

That's fine. I appreciate that. I'm just trying to put some color in between the EBITDA reconciliation where you do have some asset sales and there's obviously an assumption there on what sold or contribution and timing. But it's okay to leave it at that. And just one more clarification on the asset sales. Again just sort of a metric one. You mentioned it would be accretive. I'm assuming it's going to be accretive on a debt to FFO basis, maybe a clarification point of view. And then would that be a more near-term 2019 or more longer-term type -- if you feel like providing something along that line?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

First of all, it would be accretive to the metric that you referenced. And in terms of, I don't know, Tim, if you have any comments on the longer-term aspect of that.

Timothy William Watson - AltaGas Ltd. - Executive VP & CFO

Yes, I mean I think we look at things both in terms of the current year because obviously we're past January 1st, so anything we're doing here in terms of the CAD 1.5 billion to CAD 2 billion will be interspersed throughout the year. And keep in mind too, there'll be announcements, so as we progress things over the course of the year, there'll be an announcement here or there of transactions and then they'll be closings thereafter. And so we'll usually be collecting the collecting the cash. We'll be holding those assets until closing. We'll usually be benefiting as such from that.

So asset sales will take place this year, we'll have sort of partial year impacts, but we most certainly look at it on a full-year impact as well. So what does it look like if we sell an asset this year and no longer have it next year? That goes into our thinking and our calculations for whether it makes sense both from a debt perspective as well as the impact on our EBITDA and FFO profile.

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

And one final question on capital spending. We've got about CAD 1 billion in CapEx this year. Again, I'm trying to reconcile one of the slides where we've got CAD 1.3 billion in top quality projects. A lot of that is allocated to the utility segment and yet we're looking at high single digit type growth in that business. The question I've got is the accelerated pipeline replacement program over the next few years, is that going to be a little more frontend loaded to the next few years or is it really ratable?

Randall L. Crawford - AltaGas Ltd. - President, CEO & Non-Independent Director

I think it's basically ratable over that -- the guidance that we're giving is over an annual. And that's going to be our primary recovery mechanism.

Operator

This concludes the Q&A portion of today's call. I will now turn things back to Mr. McKnight.

Adam McKnight

Great. Thank you, Chris. And thanks, everyone, for joining us once again for today's call. And for your interest in AltaGas. As a reminder, the investor relations team will be available after the call for any follow-up questions that you have. That concludes our call this morning. You may now disconnect your lines.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.
