

AltaGas Ltd.

Fourth Quarter & Full Year 2021 Financial Results

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PRESENTATION

Operator

Welcome to AltaGas Fourth Quarter 2021 Financial Results Conference Call. My name is Michelle and I will be your operator for today's call. All lines have been placed on mute to prevent any background noise; however, if you have any difficulties hearing this conference, please press star zero for operator assistance at any time. After the speakers' remarks, there will be a question-and-answer session. I'd like to remind everyone this conference call is being broadcast live on the Internet and recorded.

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

Adam McKnight — Director, Investor Relations, AltaGas Ltd.

Thanks, Michelle, and good morning, everyone. Thank you for joining us today for AltaGas' fourth quarter and full year 2021 financial results conference call.

Speaking on the call this morning will be Randy Crawford, President and Chief Executive Officer, and James Harbilas, Executive Vice President and Chief Financial Officer. We're also joined here this morning by Randy Toone, Executive Vice President and President of our Midstream Business; Blue Jenkins, Executive Vice President and President of our Utilities Business; and Jon Morrison, Senior Vice President, Investor Relations and Corporate Development.

We'll proceed on the basis that everyone has taken the opportunity to review the press release and our fourth quarter results and, similar to previous quarters, we've published an earnings summary

presentation that you can find on our website. This presentation walks through the quarter and highlights some of the key variances and non-recurring items that we would assume will be helpful for the market to understand.

As always, today's prepared remarks will be followed by an analyst question-and-answer period and I'll remind everyone that we will be available after the call for any follow-up or detailed modelling questions that you might have.

As for the structure of the call, we'll start with Randy Crawford providing some comments on our financial performance and progress on our strategic priorities, followed by James Harbilas providing a more detailed walk-through of the fourth quarter financial results, near-term outlook, and 2022 guidance, and then we'll leave plenty of time at the end for Q&A.

So, just before we begin, we'll also 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 our investor presentation, which can be found on our website, and more fully within our public disclosure filings on both the SEDAR and EDGAR.

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

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Thank you, Adam, and good morning, everyone.

2021 was a strong year for AltaGas, as we achieved a number of significant milestones across our platform. I am proud of the strong financial and operational performance that we delivered over the course of the year and the progress we made on our ESG initiatives.

We delivered earnings per share growth of 25% year over year and normalized EBITDA growth of 14%. These results were well within the ranges of our April 2021 increased guidance, despite the operational and financial impacts associated with the devastating flooding that impacted communities in British Columbia and Washington State during the fourth quarter.

Our 2021 operating results built upon the strong growth that we delivered in the past two years and is a testament to our diversified model that continues to demonstrate strong advantages throughout market cycles and operating environments. We continued to deepen our organizational capacity and significantly advanced AltaGas' long-term corporate strategy by improving operating practices that are focused on long-term operational excellence.

In our utilities, we achieved 6% EBITDA growth despite milder weather in Michigan and DC during the fourth quarter. We added 17,000 new customers across our utilities network in 2021 while increasing our rate base by approximately 8.5% year over year through our continued investment in our networks, enhancing the safe and reliable service we offer our customers. Our utility operations were strong and we continue to centre on the same regulatory capital and cost discipline that we have been focused on instilling over the past three years. Our continued investment in accelerated pipeline replacement has resulted in a 23% and 13% reduction in leaks since 2019 and 2020, respectively. We are now exceeding our customer service metrics having overcome the initial challenges we faced by changing our call centre

provider at Washington Gas in the third quarter. These are foundational improvements that will continue to accrue benefits well into the future.

With our midstream segment, we delivered an exceptionally strong performance this year, despite the unexpected headwinds faced in the fourth quarter. We are extremely proud of the financial performance that we delivered over 2021. With more than \$2 billion of investment in the recent years within the Northeast BC and our global export platform, we are excited about the egress solutions that we have been able to provide to producers in the region and our ability to provide critical source of needed natural gas liquids for key Asian markets. We also take great pride that our infrastructure and operations will support better global environmental outcomes that align with the lower carbon and lower emissions future that is upon us.

We successfully completed the integration of Petrogas and achieved combined synergies that exceeded our \$30 million target. This is a testament to the strong talent we added to complement the existing strengths of our organization. Through the combination of our export assets, we were able to average approximately 90,000 barrels a day of global exports in 2021, which was in line with our annual target. With the flooding behind us, the platform is well positioned to achieve our 2022 export target of 97,000 barrels a day.

Our gas gathering and processing and fractionation and liquids handling operations also demonstrated strong growth, which is a testament to the integrated value chain we operate. We continue to make strategic investments in our Montney and global export platform with a continuous focus on connecting customers and markets over the coming years.

The macro environment for energy fundamentals continues to strengthen as the tightening supply and demand picture drives commodity prices to levels not seen since 2014. The unfortunate events that have been unfolding in Eastern Europe illuminate the critical value of energy independence and diversity. These events are already producing far-reaching geopolitical implications regarding energy security. Germany recently announced plans to further diversify its energy supply with the recent announcement of planned additions for two new LNG terminals as well as numerous discussions by foreign countries related to the investment and long-term contracting of diverse energy supply. We are fortunate in Canada and the United States to have access to abundant sources of energy and it is imperative that we invest in critical energy infrastructure continues as we continue to transition to the energy sources of the future.

AltaGas is well positioned to support the continued development of energy resources such as the Montney and, to a lesser extent, the Marcellus Shale, to facilitate the best outcomes for our customers in Canada, the US, and Asia. It's unfortunate that the narrow view that has been taken regarding MVP has caused significant delays to the completion of the pipeline. The pipeline would ensure diversity and affordability of natural gas critical to East Coast utilities that serve the energy needs of US residents and businesses. The two-Bcf a day design capacity of the pipeline has the potential to free up natural gas originating in the Gulf that could be available for export to Europe.

We also take a lot of pride that our infrastructure and operations will support better global environmental outcomes that align with the lower carbon and lower emissions future that is upon us. Our midstream business will continue to be centred around our global export platform, which provides access to key West Coast North American ports that provide a structural advantage, which is a 60% advantage over US Gulf Coast and a 45% advantage over the Middle East for shipping timing savings. This provides

North American producers and aggregators with the best netbacks for propane and butane while providing diversity of critical LPG supply and contributes to the energy security in Asia.

In these uncertain times in which we live, we take a great pride in being able to be a steady and reliable energy provider to North America, as well as Japan, South Korea, and other key Asian markets. And as I look ahead, I'm extremely excited about the position of our Company and the increasingly constructive energy demand fundamentals as the global economy continues to recover. We remain steadfast in our strategy and are firmly committed to leveraging our strategically positioned utilities and midstream assets, both with significant organic growth opportunities.

So in closing, I am proud of the role that AltaGas plays in supporting North American energy independence and our ability to export affordable butane and propane LPGs to the world. And with that, I will turn the call over to James to review the financial results in detail.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Thank you, Randy, and good morning, everyone.

As Randy mentioned, we are very pleased with our 2021 financial results and the strong progress that we were able to accomplish during the year. We achieved normalized EPS of \$0.38 in the fourth quarter and \$1.78 for the full year. This included landing within the upper end of our 2021 guidance range of \$1.65 to \$1.80 and represented a 25% year-over-year increase. Normalized EBITDA for the quarter came in at \$341 million and \$1.49 billion for the full year, which was slightly below the midpoint of our guidance range of \$1.475 billion to \$1.525 billion and represented a 14% year-over-year increase. You will

recall that both of these guidance ranges were increased in April 2021 versus our original expectations at the start of the year.

Normalized FFO was \$287 million for the quarter and approximately \$1.2 billion for the full year, representing 19% year-over-year growth. This strong cash generation provides us with the foundation to fund our strong ongoing organic growth opportunities and increasing our returns of capital to shareholders over the long term.

Turning to our segmented results for the fourth quarter, normalized midstream EBITDA came in at \$102 million compared to \$128 million in the fourth quarter of 2020. The quarter included continued year-over-year growth in our global exports platform, albeit at a slightly slower pace than would have otherwise been the case due to devastating flooding that occurred during the fourth quarter and the large rail outages on the West Coast. AltaGas' gathering and processing volumes increased 9% year over year in the fourth quarter of 2021 while fractionation and liquids handling volumes increased 37% year over year.

Growth within AltaGas' facilities continued to be more heavily weighted within Montney facilities and the Company's industry-leading footprint in the region. These strong volume growth numbers were offset by two major factors. The first was the \$24 million timing-related hedging loss that we previously disclosed in the third quarter. This relates to the recognition of revenue for an LPG cargo that was loaded at the end of the third quarter at spot prices with the offsetting hedge loss not realized until delivery in the fourth quarter once the ship reached its destination. The second factor was the logistical and cost challenges associated with the flooding on the West Coast with a total financial impact of approximately \$20 million. Although we were able to mitigate some of the transportation and supply chain outages by

redirecting certain propane volumes to RIPET that were originally destined for Ferndale, we were not able to alleviate butane volume disruptions with financial performance further impacted by higher transportation costs associated with rail switching to handle the large logistical outages. Other factors that impacted the fourth quarter results include AFUDC on MVP no longer being recorded throughout 2021, the loss contribution from the US storage business that was monetized in the second quarter of 2021, and the impact of the Gordondale blend and extend contract.

Considering the size and magnitude of the flooding and mudslides, we were encouraged by the swift recovery by the team to get us back on track in early 2022. Looking ahead, we continue to actively de-risk the midstream platform and reduce commodity price exposure and volatility where appropriate. We're well hedged through 2022 with approximately 44% of global export volumes tolled or collectively hedged. This includes an average FEI to North American financial hedge price of approximately US\$13 per barrel between our expected propane and butane volumes. We also have 74% of our expected frac exposed volumes hedged in 2022 at \$33 per barrel.

Normalized utilities EBITDA was \$238 million in the fourth quarter compared to \$259 million in the comparable quarter of last year. The year-over-year decrease was largely due to unfavourable weather conditions and the impact on retail marketing power and gas margins and higher PJM costs in 2021. Lastly, the continued weakness in the US dollar to Canadian exchange rate drove a further \$7 million year-over-year impact during the quarter compared to the fourth quarter of 2022.

WGL reported normalized EBITDA of \$183 million in the fourth quarter, up 8% year over year, driven mainly by the positive impacts of the Maryland and DC rate cases, continued ARP investments, as

well as higher returns on pension assets and asset optimization. The quarter also included some costs associated with replacing the customer call service provider at Washington Gas following service and performance issues with the former provider.

SEMCO and ENSTAR's combined normalized EBITDA was \$60 million in the fourth quarter, down \$6 million from the same period last year due to warmer weather in Michigan, partially offset by colder weather in Alaska and slightly higher operating and G&A costs related to employee benefits.

And finally, the retail business generated \$27 million lower normalized EBITDA contribution on a year-over-year basis due to the combination of outsized performance in the fourth quarter of 2020, which was driven by the timing of PJM fixed costs and the timing impact of swap gains between the third and fourth quarters of 2021, the latter of which had the effect of pulling profits into the third quarter of 2021 rather than the fourth quarter of 2021.

The corporate and other segment reported normalized EBITDA of \$1 million compared to \$5 million in the same quarter of 2020. The \$4 million year-over-year decrease was driven by the combination of higher expenses related to employee incentive plans as a result of AltaGas' rising share price over the course of 2021 and the monetization of Pomona and Ripon in 2020.

During the quarter we recognized a \$271 million pre-tax impairment on the Mountain Valley Pipeline to reflect the heightened risk and legal challenges associated with the project given recent court rulings. We continue to believe the pipeline will be completed and is vital to long-term energy security on the US East Coast, but the impairment reflects some of the recent risks on the project.

Subsequent to the quarter end, AltaGas closed the sale of a 60-megawatt standalone energy storage development project in Goleta, California for total proceeds of approximately \$15 million. AltaGas also agreed to sell an interest in certain midstream processing facilities to a customer during the first quarter for a total consideration of approximately \$234 million. The transaction is expected to close in the second quarter of 2022.

Turning to our balance sheet, we are maintaining a disciplined approach to capital allocation within a self-funding model that will continue to strengthen our balance sheet and increase financial flexibility over the medium to long-term. We remain steadfast in our goal to reduce our net debt to EBITDA to below five times in the medium term. 2021 year end net debt was \$8.3 billion compared to \$8.2 billion at 2020 year end. This was above our expected levels due to a combination of factors, including larger than expected working capital, including higher gas costs, cost of gas and storage within the utilities, which should start to unwind in the next few quarters.

Looking ahead, AltaGas continues to focus on delivering durable and growing EPS and FFO per share while lowering leverage ratios. We are maintaining our 2022 guidance ranges, including normalized EPS of \$1.80 to \$1.95 per share, normalized EBITDA guidance of \$1.5 billion to \$1.55 billion, and a capital program of approximately \$995 million.

And with that, I will turn it back to the operator for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now conduct the analyst question-and-answer session. If you would like to ask a question, please press star then the one on your telephone keypad. If you would like to withdraw your question, please press the star followed by the two. There will be a brief pause while we compile the Q&A roster.

Your first question comes from Linda Ezergailis of TD Securities. Please go ahead.

Linda Ezergailis — Analyst, TD Securities

Thank you. Just wondering, beyond the broad industry implications on recent unfortunate geopolitical events and the clear value of Western Canadian and North American energy security and supply, how are you thinking about maybe the implications that might have on AltaGas' strategy and maybe any specific operational potential impacts beyond constructive demand fundamentals?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Hi, Linda. Good morning. This is Randy. Thank you for the question. Specifically on the geopolitical unrest and the impact on AltaGas, specifically I would say there's not an impact overall but, as I said in my prepared remarks, we're seeing a lot of interest from foreign markets that are interested in controlling their destiny around energy. And in those recent events, we believe are only going to bolster that appetite. So we're going to continue to work with these entities for contracting offtake at the plants. And so these customers are looking to acquire the rights to output and I expect that to continue. So that's one of the impacts that we're clearly seeing. From an operational perspective, we continue to deliver and the team is doing an excellent job.

Linda Ezergailis — Analyst, TD Securities

Great. And just as a follow up, what about your domestic customers? Are you seeing rumblings potentially of a supply response to meet the need for domestic demand or is it still too early to see those conversations picking up?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

I think that definitely we're seeing continued importance of natural gas in the impacts from some of the things in Europe overall, but overall, I'll let Blue comment specifically with the utility, but we're continuing to see a lot of activity around an increasing request for supply.

Go ahead, Blue.

Blue Jenkins — Executive Vice President & President, Utilities, AltaGas Ltd.

Yes, happy. Hi, Linda. So we are seeing an increased response in some of the supply basins that we of course access and that's primarily driven, as you alluded to, to the geopolitical events. We're also seeing an increased focus on those producers responding to an increase in the climate initiatives. So, certifying their gas and those types of things. So I think it's quite positive from that. We certainly haven't had any access issues to supply and when we go out to talk to the markets we have a very robust response. So we see that all as quite positive.

Linda Ezergailis — Analyst, TD Securities

Thank you. And maybe this is—

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Linda, I'll just add to—I'm sorry, Linda, I was just going to add that, from a pipeline capacity perspective, right, that we'll continue to need infrastructure to be built out even to have that supply response.

Linda Ezergailis — Analyst, TD Securities

Yes. Good point. And just maybe a quick question for James. With the asset sales, midstream and the Brush power plant, what would be the EBITDA contribution from those sold assets? Can you confirm that this is either credit neutral or positive? I'm just curious also the rationale for selling the midstream assets and might there be other assets sold this year.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Thanks for the question, Linda. I mean, at the end of the day, when we look at the midstream assets, the multiple on that sale is roughly nine to ten times EBITDA, so you can back into the foregone EBITDA from close to year end on that number, and we don't expect it to impact our guidance ranges and we see it as credit neutral. I mean it will obviously bring down our net debt to EBITDA figure from where it was at year end, get us closer to about 5.2 to 5.3 times versus where we exited 2021. And with respect to the decision to sell it, I mean it's consistent with our approach around creating value by operating these assets and this was a non-operated interest. So that was some of the strategic rationale behind us exiting, but the liquids associated with this plant continue to be dedicated to our liquids infrastructure.

Linda Ezergailis — Analyst, TD Securities

That's helpful context. Thank you. I'll jump back in the queue.

Operator

Your next question comes from Dariusz Lozny of Bank of America. Please go ahead.

Dariusz Lozny — Analyst, Bank of America Securities

Hey. Good morning and thank you for taking my question. I was just wondering if you could comment on, ah, there was a report in a US news outlet that AltaGas is taking bids for your stake in one of your Alaska Gas Utilities, just wondering if you could touch on that at all or potentially comment on whether you'd consider selling any other gas utility assets.

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Thank you for the question. Obviously, we've talked about our core and non-core assets and utilities assets are core and I won't, I cannot comment on any specific asset sale, as you can appreciate. But we continue to look at opportunities and we have a strong track record of recycling capital and looking at ways to drive shareholder value. But philosophically, our strategic objective is for our invested capital to be in the assets that are always providing the growth dynamic, and that's what we look at with all of our assets. So our objective is to position our assets so that we can profitably grow and leverage the asset for growth. And so that's how we really approach those, but I can't comment anything specific on any rumors that are out there.

Dariusz Lozny — Analyst, Bank of America Securities

Okay. No, thank you. I appreciate that colour. And maybe just along similar lines, obviously the MVP pipeline is having some delays, as you alluded to in the opening remarks. In the past you had said that you would consider transacting that after it's in service. Any changes to your outlook on that as the in-service date now appears less clear?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Yeah, I mean I think we'd said that we would be patient along those lines and so I don't think, you know, just to comment in general, I think the key area in MVP is the biological opinion. And once we get clarity on that and that gets cleared, I think everything will fall into place. But most importantly, the MVP pipeline is consistent with what I've talked about, the approach the US needs to take to ensuring access to clean energy, clean burning energy. And it's not that long ago, as you know, that we're importing natural gas and using significantly more amounts of coal. So now that we've created a cleaner, energy-independent country, we should not have to worry about those same concerns that they're having in Europe. But we can't take it for granted and so this is a really important pipeline and we've got to continue to recognize just how fortunate we are in energy in North America.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

I wouldn't mind just adding that, and I want to remind people that we always positioned MVP as a way for us to get below five times debt to EBITDA quickly, right? So we continue to believe that the pipeline will be built and, once it is, we can get to below five times through monetizing that pipeline. But

we haven't incorporated it into our 2022 funding plan, which I think is an important thing to point out, and we're not reliant on the sale and monetization of MVP to maintain our current ratings. We can continue to improve our credit ratings through organic growth within our FFO and, obviously, EBITDA and the investments we've made in the past. So I just want to make sure that we put that into context from a delay standpoint with respect to this non-core asset.

Dariusz Lozny — Analyst, Bank of America Securities

Got it. Thank you very much for those responses. Appreciate it.

Operator

Your next question comes from Robert Catellier, CIBC. Please go ahead.

Robert Catellier — Analyst, CIBC Capital Markets

Yes. I'd just like to follow up on MVP. Some of your equity partners have taken a different approach in the level of impairments they've taken, so what does this mean with respect to alignment on the project? Are the partners still generally aligned?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Robert, thanks for the question. Absolutely. I think the partners are focused to get this pipe and the critical nature of this pipe, so I don't think that's changed in any way.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Yeah, Rob, it's James here. I mean if you look at our approach to the impairment, it is very consistent with the approach that the operator took. So we used similar probability assessments, obviously, cash flow profiles, and estimates around asset retirement obligations if the pipeline is decommissioned. So our impairment really followed the assumptions that the operator used. So we're closely aligned there as well.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. That was going to be my next question, just what you would estimate the ARO to be, the asset retirement obligation, should things not work out the way you envision and the project ultimately be stopped.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Well, yeah, if you look at NextEra's filing, I think they disclosed an asset retirement obligation of roughly \$400 million. Our obligation would be about 10% of that, which is our equity ownership in the pipeline, and that's what we factored into our model when we ran our impairment analyses.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. And then just a couple more quick ones here, but just is there any update on the butane export license progress?

Randy Toone — Executive Vice President & President, Midstream, AltaGas Ltd.

Hi, Robert. It's Randy Toone. I believe right now it's just going through public notification and that's a certain number of days and so we should have that license here probably within the next couple of months.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. And then finally, this is a thinly-veiled question, but how would a non-operated liquids pipeline enhance your business if one should become available in the market?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Oh, okay. I'm sorry, Rob, I was just trying to understand the question (inaudible) like that. Look, again, back philosophically, that we are focused on creating value. We're an operating company and we add value through our model of operational excellence in controlling the asset. So we think that's a critical part of how we operate and how we add value to our customers and I think that that's kind of where we would look at that.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. Thanks very much.

Operator

Your next question comes from Robert Kwan of RBC Capital Markets. Please go ahead.

Robert Kwan — Analyst, RBC Capital Markets

Great. Good morning. If I can come back to one of the answers, James, you gave earlier just around the leverage target of under five times, and just with the MVP delay, are you really just linking getting there with MVP only or, if you think about the uncertainty and the extended time line, do you see other assets that could help you get to that target? Maybe if you can also comment on just some of the recent M&A that we've seen in the past week or so for midstream in Western Canada as well as LDCs in the US?

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Yeah, so, Rob, my comments around MVP was that, if the consortium was able to hit its original in-service date, which was estimated as Q2 2022, we saw it as an immediate way for us to get below five times, and that's how we positioned it when we talked about our investor day and rolled out our guidance. We still think we can get to five times, even without an MVP monetization, it's obviously just going to take us longer to get there with the organic growth that we would see on the platform. And when we run our models five years out, we can get below five times net to EBITDA, but it takes time without the monetization of MVP. If we're able to move forward with it in 2023, assuming that's the new in-service date once we go through some of the, ah, once we revisit the biological opinion and move that through the process, then obviously we can get there in 2023. So that's what I meant with respect to that asset.

I'll defer to Randy on some of the M&A activity.

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Thank you, Robert. Appreciate the question. And so, look, my comment in general about some of the LDC and the other activities, I'm actually excited that the private side is seeing the value that's intrinsic in these assets. And we're going to continue to work to extract that additional value and improve the overall value of our utility assets. So, overall, that's exciting to see that, recognizing that intrinsic value.

Robert Kwan — Analyst, RBC Capital Markets

I guess, Randy, with you mentioning the private side seeing the value, in terms of trying to reach that leverage target, is there any kind of thought of, whether it's asset or a combination of non-MVP assets, just to strike while the iron is hot and get yourself to under five times?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Like I said, I don't want to comment on anything specific, but the fact is I think our management team has shown that we focus on creating shareholder value, right? But we've got a lot of additional value to extract in investments in a lot of these assets. So I think that we'll continue to look at opportunities to recycle capital but, in general, I think we've got a pretty good track record of that. But overall, excited about the fact that the intrinsic value of these assets is being recognized.

Robert Kwan — Analyst, RBC Capital Markets

Got it. If I can just finish with a couple of small questions on guidance, the guidance statement specifically called out that an effective 21% tax rate. I'm just wondering if there's something to read into that. And the other is you've highlighted the mix, use versus midstream and EBITDA. Recognizing it's a small change, but midstream is going up, notwithstanding MVP is coming out of this year, and you also

have the asset sale you just announced, so just is that commodity price or is there something else going on in either of the two segments that's changed since December?

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

I just want to address the first part of your question with respect to effective tax rate. I mean we've always assumed an effective tax rate of roughly 21% to 22% when we've rolled out our guidance, so I don't think there was anything unique about that. We've disclosed it in the past.

If I'm following your second question, I mean, obviously, we've reaffirmed the guidance range that we rolled out at our investor day. The asset sales that I referenced in the past, yes, it will be a bit of a grind to our overall EBITDA between the close date and the sale date, but there are some tailwinds around frac spread that can more than offset that and that's why we're not going to move our guidance range. We're still going to land within that guidance range and midstream will benefit from some tailwinds on frac spread that will help to offset some of the EBITDA that we'll lose by closing this transaction.

Robert Kwan — Analyst, RBC Capital Markets

Got it. Okay. Thank you.

Operator

Your next question comes from Jeremy Tonet of J.P. Morgan. Please go ahead.

Steve McGee — J.P. Morgan

Hi, guys. This is Steve on for Jeremy. Just a couple for me. As far as the flooding goes, are there any long-term impacts on your strategy going forward? Is there any possible steps you're thinking about taking to kind of help avoid repeating this in the future?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Yeah, Steve, thanks for the question. Overall, I think the optimization of our ports and the activities that the team did to manage through this was excellent and we're always looking at a variety of things around unit trains and optimization and storage that can only enhance and mitigate some of these impacts. This was quite a significant event, but certainly we're taking a variety of different optimization steps to ensure that we can move our products consistently every day.

Randy, do you want to add anything else to that?

Randy Toone — Executive Vice President & President, Midstream, AltaGas Ltd.

Sure. Yeah, the railroads are a very important piece of the supply chain for Canada and that was a significant outage for them and they are, you know, the railroads are trying to build their own resiliency into their networks. And so through forest fires, through floods, they're trying to build that resilience in themselves, along with what Randy said that we're building in.

Steve McGee — J.P. Morgan

Got it. And then as far as—I know with the blend and extend contract with Gordondale and then there's some contracts coming up again in 2022, so I just wanted to see if a similar contract agreement

would be viable for the ones that are coming up soon. Would you look to do, just maintain the cost of service on the ones that are cost of service and just how you think about that going forward?

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Yeah, I think that I know the ones that you're referring to that shows they're coming up and, unfortunately, our website is a little out of date. So thanks for pointing that out and we will update that. But we don't have any immediate contracts that are coming up for renegotiation that would subject us to any kind of blend and extend discussions with customers. So we apologize for that on the website.

Steve — Analyst, J.P. Morgan

Understood. But beyond that, is a blend and extend contract always on the table? Just how do you favour contract terms, I guess?

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Sorry, when you say... I mean, look, typically the approach that we'll take on a blend and extend is obviously to try to keep the same NPV on these contracts, right? So if we're going to drop the rate, we're looking for some extended term so that when we do an NPV calculation we can more or less maintain the returns that we're going to generate on those contracts. I mean if your question is philosophical, that's the way we'll typically try to approach it. And obviously the rates on those contracts that are coming up for renegotiation need to reflect where the market is as well.

Steve — Analyst, J.P. Morgan

Got it. Appreciate the colour, guys.

Operator

Your next question comes from Rob Hope of Scotiabank. Please go ahead.

Rob Hope — Analyst, Scotiabank

Good morning, everyone. I want to go back to the gas processing sale. Kind of what was the genesis of this? Does it change how volumes are allocated to that specific facility? And does it also, you know, I would say, alter the fee structure for the remaining volumes?

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

So, Rob, it's James here. No. I mean look, at the end of the day, the liquids associated with that processing facility continues to be dedicated to our liquids handling infrastructure in the region. So what we're foregoing, obviously, is the gas processing, our share of the gas processing fee when we had that non-operated investment. That's what we're foregoing. It doesn't really change anything else about the remaining footprint or the way we run our business, because it was a non-operated interest.

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

And I'll just add we just don't see this transaction having any adverse impact on our overall midstream and energy export value supply chain.

Rob Hope — Analyst, Scotiabank

All right. Appreciate that. And then just moving over to RIPET and Ferndale, you know, we've seen FEI kind of diverge here recently from Belvieu and even more so from Edmonton, so as you take a look at your hedging profile for the rest of the year, you're pretty good for Q1, but it goes down quite quickly for Q2 and beyond.

Are you looking to layer on more hedges here or is this an opportunity to go out to your longer-term customers and get more tolled volumes here? So kind of how are you balancing duration for kind of near-term torque?

Randy Toone — Executive Vice President & President, Midstream, AltaGas Ltd.

Rob, it's Randy Toone here. Yeah, we're going to take advantage of the higher FEI prices and layer in more hedges. We're just looking at the April 1st supply and we just want to make sure that the supply agreement is going to line up with our hedging. So you'll see more hedging come in here in the next, probably over the next few weeks.

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

And I would also add the macro, it lines up obviously quite well in that we'll continue to layer those in, as Randy had said. But we will focus on also optimizing our network to get increased volumes and to continue to meet the demands of our customers. So I think it all goes, but I think the macro is setting up reasonably strong for the year for us.

Rob Hope — Analyst, Scotiabank

Thank you.

Operator

Your next question comes from Ben Pham of BMO. Please go ahead.

Ben Pham — Analyst, BMO Capital Markets

Hi. Thanks. Good morning. I wanted to start with your comments around de-risking your business over time and I'm wondering, to your comments around the geopolitical risk and tight supply, commodity prices rising, is that enough or has that changed your view on maybe the pace at which you're looking to de-risk or hedge your business over time or is it status quo from before?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Thanks for the question. No, what I was implying is that with, you know, we've been consistently having discussions with the markets about wanting them, they want to reach back and control their destiny, and the team and Randy have done an excellent job of sort of validating the fact that we can deliver consistently to Asia, energy. And so I think that as we look forward, right, we're going to see the

market reaching back and entering into longer-term type of tolling arrangements as well. So that really hasn't modified our strategy. I think it just looks that it's sort of the next step, as we validate this strategy, for customers to reach back. And I think the tragic events that are happening just underscores the importance of being able to control your destiny and have access to energy from reliable sources and diversity of that. So that's what I was referring to and I think it just enhances our strategy.

Ben Pham — Analyst, BMO Capital Markets

Okay. And maybe I can switch to utilities. You mentioned the 6% EBITDA growth rate base going up 8%. Can you provide, perhaps, where earnings went for 2021 and then also where you did land on the ROE?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Sure. I think overall, right, what's been driven is the historical investments that have lowered leaks, reduced costs and such that we've done, and we've continued to make improvements in the business, improving the service levels and, as you referenced, the overall EBITDA. So I think we made significant progress, Blue and his team, in improving return on equity. I don't have it in front of me but I believe about 0.75 or so was the improvement in the ROE this year in the basis points. But I'll let James answer.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

That's right, Randy. We're still about 0.6 to 0.7 short of our allowed ROE. And we have made progress, as Randy touched upon. Obviously, we had some headwinds in the fourth quarter that directly went to us addressing customer service issues where we've made tremendous progress there, and we see

those costs as transitory. We don't see them as ongoing now that we're starting to approach the service levels that we need to approach on the customer service side.

Ben Pham — Analyst, BMO Capital Markets

Okay. That's great. Thank you.

Operator

Your next question comes from Andrew Kuske of Credit Suisse. Please go ahead.

Andrew Kuske — Analyst, Credit Suisse

Thank you. Good morning. I guess this is a question for one, if not both, of the Randy's on the call, and it's really when you think about the transactional activity we've seen in Western Canada most recently. What do you think that means for asset values, but then also the competitive dynamics with greater presence of private capital in the basin and, just competitively, how does it affect you and your footprint?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

Andrew, well, first of all, I think that our core competency of being able to export in (inaudible) global markets makes us quite distinctive from that standpoint and I think that, and certainly with the rising energy prices and the need to get to these valued markets, I think that puts us in a strong position vis-à-vis our competitors.

I think what you're seeing in the basin is a lot of efficiencies and consolidation with regard to that that are driving those types of transactions. But overall I think that, when you remain competitive, you look at your cost structures, and you focus on your customers and give better access to markets, I think that really will allow us to continue to be distinctive and to grow our footprint and increase shareholder value.

Andrew Kuske — Analyst, Credit Suisse

That's helpful. And then maybe this is a two-parter for the second part of the question, and it really winds up being on the hedging around those export-oriented businesses, which you managed to grow but you also have this interesting opportunity to expand and continue to optimize the cost structure of those businesses. So how do you think about the hedging right now in the current market environment versus open and do you try to triangulate for really your capital projects in the future on the expansion plans, whether it be RIPET or Ferndale?

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

When we look at hedging, we focus on that in terms of managing our cash flows and as we look through at our earnings and plan, but we always are looking to optimize those assets. So more broadly, right, we're looking at improving our logistics, driving down our operating cost. And that comes with the scale that we're building across the entity going forward. So, as we move forward with our customers and move more toward a demand pull and tolling, that's clearly another way of hedging overall, and so I think that our strategic approach over time is to continue to do that and then to actively monetize the merchant activity to the extent that we can optimize the capacity.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

And Andrew, I'll just add, I mean Randy Toone touched on one of the critical factors that we consider when we're looking to hedge, and that's having clear visibility into the supply, the quantity of supply that's available in the market and the timing of that as well. So that factors into our decision making in terms of when we're executing those hedges as well. So even though we're hedged at a lower percentage between Q2 and Q4, as Randy Toone touched on, you can expect that to go up as the contracting season kicks in on April 1st and we get better visibility into the timing and quantity of the volumes that are available.

Andrew Kuske — Analyst, Credit Suisse

Okay. That's helpful. And then, James, if I could just sneak in one more, and it really is on your comment on the working capital. Like obviously, with the gas prices moving upwards and, in general, you're passing through the cost of gas to the end user, but just for clarity, you have, I would assume you have effectively metric relief from the debt raters just given the current circumstances.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Andrew, I'm going to apologize, I did not catch the last part of your question. It came across a little pixilated. Can you repeat that last part please?

Andrew Kuske — Analyst, Credit Suisse

Sure. So, just given the fact that you pass through the cost of natural gas to the end users in the regulated utility businesses, the fact that your working capital is increasing right now, just given that it's winter, given the fact that we got gas prices, like you're not getting any negative blowback from the debt raters at this point in time just given your regulatory protections.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

No. No. Yeah, no, appreciate that clarity. We aren't. I mean, obviously, to put it into perspective, the 55 Bcf of storage that we have, the cost of that gas, our weighted average cost of gas is 75% to 80% higher year over year. And it will unwind, we'll start to collect it, but the rating agencies specifically give us an allowance for the cost of that gas because of the pass-through nature that you touched on. So it wouldn't be a drag to our FFO to debt metrics with S&P.

Andrew Kuske — Analyst, Credit Suisse

Okay. That's great. Thank you.

Operator

Your next question comes from Patrick Kenny with National Bank. Please go ahead.

Patrick Kenny — Analyst, National Bank Financial

Thanks, guys. Just a quick follow up. You touched on the LPG supply re-contracting season this spring, but just given the pause on activity in Northeast BC and how tight fractionation capacity is in

Western Canada right now, if you do have to reach, say, further into the Bakken or other basins to backfill supply, just curious what impact, if any, there might be on your export margins year over year.

Randy Crawford — President & Chief Executive Officer, AltaGas Ltd.

I'll let Randy comment on that maybe more specifically, but we're actively looking to source volumes from the Bakken and other basins and certainly there might be some margin differential because of cost but, overall, having the best markets for those products is certainly helpful in that sense. So I look at it as incremental as we go to the other basins going forward from our plan.

Randy?

Randy Toone — Executive Vice President & President, Midstream, AltaGas Ltd.

Yeah, we're quite confident in the supply come April 1st out of Western Canada, so either Northeast BC or Fort Saskatchewan. The Bakken is, logistically, we have to get rail costs down to really make those economics work, but we are working on a number of initiatives to make that happen over the next one to two years. But we feel that we can meet our targets sufficiently with the volumes in Western Canada.

Patrick Kenny — Analyst, National Bank Financial

Okay. That's great. And then, James, just on the recent hybrid issuance and, I guess, the associated redemption of the Series K prefs, looks like the math was a no-brainer on that one. I know you have some time here, but how are you thinking about other potential pref redemptions? I think the Series C is due this fall and then a few more still to come over the next couple of years, but just curious how the math

might be looking today, assuming you can refi with hybrids along the way on similar terms as this most recent one.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Yeah, great question, Pat, and obviously we have been very active in terms of trying to replace hybrid prefs with hybrid instruments with the cost advantage that you touched on. I mean we're going to continue to monitor the markets in terms of cost and accessibility between now and when we have to make that decision this fall when the Series C comes up for rate reset. I mean if I look at even where the underlyings have gone in some of the spreads just given interest rate pressures that everyone is seeing across the curve, I still think that we can make Series C work, but I don't want to make that determination now. We'll have to wait until we get closer to that redemption date and make the call now. But we are open to it. We're going to continue to evaluate and do what's best from an all-in cost standpoint between those two instruments.

Patrick Kenny — Analyst, National Bank Financial

Okay, that's great. I'll leave it there. Thanks.

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Thank you.

Operator

Your last question comes from Linda Ezergailis of TD Securities. Please go ahead.

Linda Ezergailis — Analyst, TD Securities

Thank you. Just a clean-up question on your maintenance capital. Just curious what's driving the increase year over year. Do you have any facilities that have planned outages? And maybe you could give us some context as to what they are in which quarter. And then, given that maintenance capital is going up in 2022, do we revert to a run rate beyond this year looking more like the last five years of \$20 million to \$35 million or do you expect, due to inflationary factors, that maybe there will be some sort of a discrete step up beyond this year as well?

James Harbilas — Executive Vice President & Chief Financial Officer, AltaGas Ltd.

Hi, Linda, it's James. So yeah, the maintenance CapEx in 2022 is going to be a little higher, because we had a few turnarounds that we deferred from 2021 into 2022. We expect to do those between Q2 and Q3 of this year. And obviously, under our contracts, we're able to flow through the cost of those turnarounds to end-use customers, so we don't anticipate inflation being an issue.

Linda Ezergailis — Analyst, TD Securities

Okay. Thank you. And, as another follow up, there's the potential for CP to go on strike mid-March. What impact might that have on your operations and how might you be able to mitigate that if they do go on strike? Hopefully not for too long, but just give us a sense of how you're thinking about that.

Randy Toone — Executive Vice President & President, Midstream, AltaGas Ltd.

Hi, Linda, it's Randy Toone. We use CP, but for a small part of our business. Most of our railcars are on CN. So we do see it having a small impact, but we don't see it as a material impact. And as we saw with other strikes with the railroads, they don't last very long.

Linda Ezergailis — Analyst, TD Securities

Great. Thank you.

Operator

Ladies and gentlemen, this concludes the Q&A portion of today's call. I will now turn the conference back to Mr. McKnight. Please go ahead.

Adam McKnight — Director, Investor Relations, AltaGas Ltd.

Thanks, Michelle. Thank you, everyone, once again for joining our call today and for your interest in AltaGas. As a reminder, we will be available after the call for any follow-up questions that you might have. That concludes our call this morning. I hope you all enjoy the rest of your day. You may now disconnect your phone lines.