

# Q1 2013 Earnings Call

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## Company Participants

- Jess Nieuwerk, Director Finance and Communications
- David Cornhill, Chairman and Chief Executive Officer
- David M. Harris, President, Power and Gas
- Deborah S. Stein, Chief Financial Officer, Senior Vice President

## Other Participants

- David Noseworthy, Analyst
- Linda Ezerzailis, Analyst
- Steven Paget, Analyst
- Robert Kwan, Analyst
- Robert Catellier, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen, and welcome to the AltaGas First Quarter 2013 Results Conference Call and Webcast. I would now like to turn the meeting over to Mr. Jess Nieuwerk, Director of Finance and Communications.

Please go ahead, Mr. Nieuwerk.

### Jess Nieuwerk, Director Finance and Communications

Thank you. Good morning, everyone. Welcome to AltaGas' first quarter 2013 conference call. Speaking today are David Cornhill, Chairman and Chief Executive Officer; Debbie Stein, Senior Vice President and Chief Financial Officer; and David Harris, President Power and Gas. After some formal comments this morning, we will have a question and answer session.

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

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

**David Cornhill, Chairman and Chief Executive Officer**

Thank you, Jess. Good morning, everyone. This morning, we reported an 18 percent increase in normalized earnings per share, achieving \$0.53 per share compared to \$0.45 per share in the first quarter 2012.

Our normalized EBITDA for the first quarter 2013 increased by 59% to \$145.8 million compared to \$91.6 million in the same quarter 2012.

Normalized funds from operations for the first quarter 2013 were \$122.4 million, or \$1.16 per share compared to \$74.7 million, or \$0.83 per share in the first quarter of 2012.

In the first quarter of 2013, we made significant progress on our journey. SEMCO and ENSTAR are performing as expected and delivered over \$96 million of EBITDA in the first two quarters of ownership.

The Blythe Energy Center acquisition provides long-term stable and reliable earnings and cash flow. The Forrest Kerr hydro project continues to track ahead of schedule and within budget. We have substantially completed the water intake area of the project, as well as the tunneling and excavations.

Finally, we are now expecting the completion of McLymont and Volcano hydro projects to be mid-2015, a few months earlier than previously expected.

In view of the progress achieved and the strong financial results, the Board of Directors has increased the monthly dividend by \$0.005 to \$0.125 per share. This increase will be effective with the June 17<sup>th</sup> dividend payment.

In the quarter, we made several announcements that will drive our growth. Our growth initiatives support the development of infrastructure that produces clean and affordable energies, primarily through the use of natural gas. We are pursuing new export markets for Canadian gas, expanding our natural gas fire generation capacity, growing our local gas distribution utilities and developing opportunities to use clean and low-cost natural gas through CNG and LNG.

We announced the acquisition of the 570 megawatt Blythe Energy Center, which provides stable cash flows through the PPA with a strong counter-party. The acquisition is expected to close in the second quarter. The Blythe Energy Center provides us with a significant geographic footprint in our growing power market and provides us with the opportunity to expand our clean power generation capacity at the site.

In addition, growth is expected to come from our plans to develop energy export business through the partnership we announced with Idemitsu, as well as the plan 600 million cubic feet a day expansion of the PNG system, which is expected to deliver natural gas to the West Coast. Planning and development of these two initiatives are underway and we expect to have more details later this year.

In BC, PNG is currently delivering CNG to customers by truck. We are exploring additional CNG and LNG initiatives in BC and provide customers with clean and affordable energy solutions.

In Nova Scotia, Heritage Gas is expecting to begin distributing CNG by truck to industrial and commercial customers in a few weeks. CNG will reduce the energy costs, reduce carbon emissions and increase our customers' competitiveness.

AltaGas expects to deliver stronger earnings and cash flow in 2013 as compared to 2012. 2013 will be another exciting year on our journey as we benefit from new assets added in 2012 as we complete construction of Forrest Kerr project and prepare to deliver power to the BC grid in mid-2014, as we complete the feasibility studies for the PNG expansion and energy export business and as we embark on the next leg of our growth beyond 2014.

We remain committed to our strategy to increase stable cash flow from long-lived assets to further support both dividend growth and capital growth.

I will now pass the call on to Debbie.

**Deborah S. Stein, Chief Financial Officer, Senior Vice President**

Thank you David and good morning, everyone.

Normalized net income applicable to common shares for first quarter 2013 was \$55.5 million, or \$0.53 per share compared to \$40.1 million or \$0.45 per share for same quarter 2012.

On a GAAP basis, first quarter 2013 net income applicable to common shares was \$49 million, compared to \$41.3 million for first quarter 2012. On a per share basis, we reported \$0.46 per share for both quarters on a GAAP basis.

In the first quarter 2013, on an after-tax basis, we normalized for \$6.2 million related to mark-to-market accounting and \$0.3 million for transaction costs related to the Blythe acquisition.

The business segments reported normalized operating income of approximately \$115 million in first quarter 2013, compared to \$76.4 million for the same period last year. As David mentioned, the increase was driven by the addition of SEMCO and higher volumes processed in the gas business and higher power generated in the power business. In Gas, Gordondale and Co-stream both began commercial operation in fourth quarter 2012 and so, first quarter this year was their first full quarter contribution. Blair Creek began operating in third quarter last year, so operated for a full quarter compared to first quarter last year. The utility segment also benefited from continued rate based growth at the Canadian utilities.

For first quarter 2013, interest expense was \$24.6 million, compared to \$12.8 million in same quarter 2012 due to a higher average debt level of \$2.7 billion in first quarter 2013, compared to \$1.4 billion in the first quarter 2012, partially offset by a lower average borrowing rate of 4.7 percent in the quarter compared to 5.5 percent in the same quarter last year.

The effective tax rate in the first quarter 2013 was 27 percent compared to 24 percent in the same quarter last year. The increase is mainly due to higher tax rates and higher income subject to tax in the

U.S. compared to last year. Current taxes also increased as a result of higher earnings from the utility segment, but the majority of the current taxes are recovered through the regulated revenue model at the utilities.

In first quarter, net invested capital was approximately \$104 million, the majority of which was growth capital related to the construction of the Northwest projects and capital expenditures at the utilities. For the full year, we expect to invest approximately \$350 million to \$400 million excluding the Blythe acquisition.

Our balance sheet remains strong with debt to total capitalization of 57 percent at the end of first quarter. Pro forma, the equity raised through the Blythe acquisition and following the closing of Blythe, our debt to total capitalization is expected to be approximately 54%.

We continue to have strong support from the credit markets and we obtained a new \$300 million U.S. credit commitment to support the Blythe acquisition. And on April 12, we issued \$175 million U.S. denominated floating rate note at LIBOR plus 0.79 percent for a two-year period.

Our debt maturity remains very manageable and we will continue to balance our long-term and short-term financings as well as floating and fixed rate debt in order to execute the financing strategy that supports our business strategy.

We continue to be well-positioned for long-term earnings, cash flow and sustainable dividend growth into the future.

And with that, I will now turn the call over to David Harris.

**David M. Harris, President, Power and Gas**

Thank you, Debbie, and good morning, everyone.

As David mentioned earlier, our new gas and power assets delivered financial results we expected in the quarter. The Gordondale on Co-stream gas processing facilities as well as the Blair Creek expansion all helped to partially offset the impact of the lower contribution from sale of liquids. Gordondale was operating as planned and reported earnings based on our take or pay volumes. At Co-stream, volumes are down slightly due to some inward pressure issues from the NGTL system, but we expect to have these resolved in the second quarter.

Our Q1 2013 total extraction volumes increased by over 1,300 barrels per day, primarily as a result of increased ethane volumes coming from the addition of our Harmattan Co-stream facility.

NGL volumes decreased by approximately 850 barrels per day compared to the same quarter 2012, mainly due to lower volumes at Younger and JEEP.

FG&P throughput in the first quarter 2013 averaged 403 Mmcf per day, slightly above Q1 2012, but well above the overall 2012 average of 372 Mmcf per day and the fourth quarter throughput of 377 Mmcf per day. Our new Gordondale facility is operating as designed with 40% current utilization. We expect

volumes at Gordondale to ramp up throughout the year based on planned producer activity in the area. The Blair Creek expansion is operating close to capacity and the expansion like the Gordondale and Co-stream facilities all are underpinned by long-term take or pay and cost of service arrangements.

For the first quarter 2013, AltaGas hedged approximately 58 percent of frac exposed production at an average price of approximately \$34 per barrel before deducting extraction premiums. This compares to approximately 70 percent hedged approximately \$36 per barrel last year.

Despite NGL frac spread for Q1 2013 was approximately \$27 per barrel compared to approximately \$40 per barrel a year ago, we estimate that 12 percent of the total extraction volumes of remainder of 2013 will be exposed to frac spread. Approximately, 45 percent of that exposure has been hedged at an average price of approximately \$30 per barrel before deducting extraction premiums.

In our power segment, the assets we added in 2012 all performed as expected. The biomass and wind assets contributed to earnings as expected and the Cogen II facility in Alberta was able to benefit from higher power prices in the quarter.

We did see lower results overall in the power segment, mainly due to the impact of unplanned outage at Sundance 3 for 8.5 days. In addition, lower hedge prices and volumes, lower generation at Bear Mountain and lower power prices received from power generated by the peak added to the lower results.

The Alberta power market showed considerable volatility in Q1 with February averaging \$29 and March averaging \$108. As a result, overall first quarter prices increased average \$65 per megawatt hour compared to \$60 a megawatt hour in Q1 of 2012.

For the first quarter of 2013, AltaGas Alberta power generation was 61percent hedged at an average price of \$68 per megawatt hour compared to 75percent hedged approximately \$80 per megawatt hour for the same period last year. We are approximately two thirds, 45% and 40% hedged for the second through fourth quarters respectively for approximately \$65 per megawatt hour.

Construction on Forrest Kerr continues to outpace expectations with the project running ahead of schedule and on budget. The total project is approximately 80 percent complete and there are no major components outstanding that are on critical path. The excavation of the power tunnel was completed on April 4, 2013 with a 30 meter plug still in place to mitigate the risk of flooding during powerhouse construction. The in-river work is complete with the cofferdam is completely removed and completion of the powerhouse is progressing ahead of schedule. We have completed commissioning of the intake structure and the inflatable weir with the majority of remaining work being the completion of the powerhouse construction and installation of the turbines, which is ahead of schedule. We expect the plant to be mechanically complete by the end of 2013. We expect to be commissioning of the plant this year and to be in position to synchronize to the Northwest Transmission Line, which is scheduled for COD in May 2014.

At McLymont Creek and Volcano Creek, all material permits are in place and construction is well underway. The McLymont Creek, access road and bridge were completed in the first quarter, excavation of the Volcano Creek powerhouse is complete with the foundation poured. The intake site and diversion are currently underway and are expected to be completed by the end of second quarter 2013.

Finally, before turning the call back to Jess, I'd just like to comment on our recent acquisition of the Blythe Energy Center. Blythe will add 570 megawatts to our total power generation portfolio, while helping us to secure a strong foothold in the California power market. The power purchase agreement will provide stable earnings and cash flow for the next seven years post-PPA, Blythe's strategic operation allows us to access two premium power markets: California and Arizona. Load growth in the California market is expected to be approximately in the 1.5 percent range. And based on the environmental issues in that market, we expect there to be significant retirements over the next decade. As such, we expect to see reserve margins compress and we are very confident in being able to contract Blythe favorably in the future.

The acquisition is on track to close in the second quarter.

That concludes my prepared remarks. I'll now pass the call back to Jess.

**Jess Nieukerk, Director Finance and Communications**

Thank you, David. Operator, I'll now turn the call over to you for our Q&A session.

**Operator**

Thank you. We'll now take questions from the telephone lines. (Operator Instructions).

Our first question comes from David Noseworthy of CIBC. Please go ahead.

**David Noseworthy**

Good morning.

**David Cornhill, Chairman and Chief Executive Officer**

Good morning.

**David Noseworthy**

And I just want to start off on your joint venture with Idemitsu. It's been several months since that's been announced, so maybe you could provide us any additional detail regarding the LPG export facility that you're pursuing in terms of size, cost?

**David Cornhill, Chairman and Chief Executive Officer**

It's a little premature. Idemitsu was targeting 25,000 barrels a day, that's our current working assumption. We're in the process of doing a number of feasibility studies right now on the plants and a number of other items. So probably more in the July timeframe that you'll see more clarity around that.

**David Noseworthy**

Perfect. And then, maybe just a follow-on question. Pembina has also mentioned that they're pursuing an LPG export facility on the West Coast, is there an opportunity for you to work together to achieve operational or capital efficiencies?

**David Cornhill, Chairman and Chief Executive Officer**

There is always that opportunity. We have a number of joint ventures and with Pembina, we jointly operate and jointly own the Younger facility.

**David Noseworthy**

Thank you. And maybe just a trend to the BC LNG project, that has been delayed by the requirement for a 45 megawatt generation facility. Is there an opportunity for AltaGas to construct and operate that facility?

**David Cornhill, Chairman and Chief Executive Officer**

We know how to do it. That's all I can say at this point.

**David Noseworthy**

Fair enough. And maybe one last question on the BC LNG. Obviously, with the joint venture you're targeting, I think it was called small scale LNG facility, would development of that include potentially an acquisition of such facility?

**David Cornhill, Chairman and Chief Executive Officer**

I can't speculate on that.

**David Noseworthy**

Okay. All right. Well, fair enough. Those are my questions. Thank you.

**Operator**

Thank you. Our next question comes from Linda Ezergailis of TD Securities. Please go ahead.

**Linda Ezergailis**

Thank you. Congratulations on a strong quarter.

**David Cornhill, Chairman and Chief Executive Officer**

Thank you.

**Linda Ezergailis**

I had some questions around your gas business volumes, Younger and Joffre Ethane Extraction Plant volumes were down, what was driving that and what would be the outlook for volumes from those facilities going forward?

**David M. Harris, President, Power and Gas**

Okay. If you look at them compared to Q1 of last year, there was a fair amount of extra products in the market with respect to propane and gas prices were relatively low keeping volumes down. We're starting to see strength coming back to the gas pricing. I think if you look at gas pricing at the beginning of Q1, it was around high 2.80 mark, it's up around 3.80. So we'll see some strength coming back there and should see volumes pressing up especially at our Younger facility.

**Linda Ezergailis**

Okay. Great. And then, similarly, the reduced in the compression off of the NOVA Gas Transmission System, can you comment on if that might be recurring or what was going on there?

**David M. Harris, President, Power and Gas**

I think it's a combination of a couple of things. As we try and bring a new facility in, you're always working through some tuning and issues when you first bring on a major facility like that. But in addition to that, I think it's also an adjustment to the overall system as it relates to that particular facility coming online. So we're working closely with TransCanada to turn around and mitigate those pressure drops that they've had on the system and working towards the solution on that through the quarter.

**Linda Ezergailis**

Okay. Great.

**David M. Harris, President, Power**

We're not anticipating that to cause us a long-term problem at all.

**Linda Ezergailis**

Okay, that's good to know. And then maybe this is the question more for David or Debbie, can you provide us with the -- or David Cornhill, can you maybe provide us for an update on the dividend policy. My sense is traditionally the Board has increased the dividend recently in the fall, so would this be accelerating up that traditional annual increase or might this be in addition to the regular annual review?

**David Cornhill, Chairman and Chief Executive Officer**

The Board will continuously review. I think from our perspective and the Board's perspective as I laid out strong performance of these SEMCO and ENSTAR and clearly we are tracking faster in de-risking the construction at Forrest Kerr than we anticipated. And with the weir totally operational and water flowing and taking out tunneling risk and the Board thought it was prudent on top of very strong earnings. So it may have been a few months earlier than anticipated, but the Board felt we're progressing faster than we anticipated. So that's the reason for the dividend increase.

**Linda Ezergailis**

Great. Thank you.

**Operator**

Thank you. Our next question comes from Robert Catellier of Macquarie. Please go ahead.

**Robert Catellier**

Can you give us some updates on the outcome of the PNG pre-feasibility study, so what size capacity increase seems most probable at this point?

**David Cornhill, Chairman and Chief Executive Officer**

We're looking at 600 million cubic feet a day.

**Robert Catellier**

Okay. Have you made as far as advancing commercial discussions beyond what it has already been related to us?

**David Cornhill, Chairman and Chief Executive Officer**

We're active in discussions and we've done routing and things like that. First Nations discussions are beginning, so we're moving down that road. But I think you'll see the progress accelerate over the next few quarters.

**Robert Catellier**

Okay. And just on the Blythe acquisition, two things that it does for AltaGas, one it obviously diversifies the way, diversifies the power assets a bit, but also comes with a growth opportunity given the undeveloped land and underutilized transmission. Which of those two items was more important in the acquisition rationale?

**David M. Harris, President, Power and Gas**

Robert, I think both of them for us were probably equally weighted.

**Robert Catellier**

Okay. Let me ask the question in different way. What's the best strategy to maximize the value of the undeveloped land in transmission capacity after the closing? Do you wait to see how the market develops, or do you know enough today to perhaps pursue a growth opportunity shortly after closing?

**David M. Harris, President, Power and Gas**

No, I think we have a pretty healthy view of the California market, not only as it exists today, but how it will probably trend on a trajectory basis over the next five years or so to a decade. So we will start to work down a path of the strategy that would allow us to turn around and expand the Blythe facility in the future to support the needs whether they be in California or in Arizona.

**Robert Catellier**

Okay. Thank you. Those are my questions.

**Operator**

Thank you. (Operator Instructions).

Our next question comes from Steven Paget of First Energy. Please go ahead.

**Steven Paget**

Good morning. My question is for David Harris. David, if I were to get on AltaGas style analysis for the BC hydro power line, what do you think it would look like? What percentage of lead time items have been ordered? What percent has been delivered? How much of cost have been locked in and so on?

**David M. Harris, President, Power and Gas**

Well, I couldn't really talk with respect to where they are and what they've locked in for pricing. I can't give a pretty healthy view of where I think they are with respect to construction.

**Steven Paget**

That would be great.

**David M. Harris, President, Power and Gas**

The line is pretty much completely cleared. They are making substantial progress with respect to foundations being installed, towers being erected and towers being assembled, probably, over the last 30 days, they've added additional crews with respect to foundation work and tower assembly, weather has been cooperating very nicely up in the area, it's been a relatively low key tail-end of the winter and spring. If you can call it spring up there, it's come a little bit early.

So we're very pleased with the progress we're seeing BC Hydro make and we've got a very good relationship with them, we talk to them on a weekly basis and we help each other quite a bit up there.

So we are very optimistic, they are right on track with what they've announced, I think, it was middle of last year to be there for us in May of 2014.

**Steven Paget**

David, thank you. At Harmattan, you appear to be getting about 20,000 barrels a day of C3 plus, are these volumes correct? And could you discuss, please, how AltaGas is processing and marketing propane plus volumes? Are you selling spec product, for example?

**David M. Harris, President, Power and Gas**

Well, with respect to the volumes, that's rough right, maybe, slightly a little lower than that. Some of it is already contracted product that goes out the door and we have a smaller percentage that we claim in the spec market.

**Steven Paget**

Thank you. Those are my questions.

**Operator**

Thank you. Our next question comes from Robert Kwan of RBC Capital Markets. Please go ahead.

**Robert Kwan**

Good morning. If I can just first just make sure I understand on the dividends, David, you're mentioning really it was just the progress you're making and de-risking Forrest Kerr, specifically, that led to a bit of the acceleration and looking at the divvy, just to be clear, is there anything in the base business that may be surprising you to the upside that help to push the divvy increase to today?

**David Cornhill, Chairman and Chief Executive Officer**

I think the base business has been very stable. We've been able to grow and offset a little weakness in commodity prices and with Blythe, with the performance of ENSTAR and SEMCO and utility business, and then the Forrest Kerr and McLymont moving up a bit, we just felt that the whole Northwest projects were substantially de-risked from where we were six months ago and so, on top of strong earnings that we were able to generate, the Board decided that to increase.

I wouldn't read anything more than things are going quite well on our growth projects and we're really on track with our strategy. So we're pleased where we are and we're pleased where we're going and so that was the rationale from a Board perspective.

**Robert Kwan**

Okay. Just a follow-up on the Co-stream in-land pressure issue, does that impact the earnings that you receive under the NOVA contract?

**David M. Harris, President, Power and Gas**

Not so much, right, because we get a fee-for-service type of contract. It's just more of the result of facility like that coming online, just being adjusted into the system more than anything else.

**Robert Kwan**

Okay. So it's more of an operational statement rather than anything that impacts the cash flows?

**David M. Harris, President, Power and Gas**

That's correct.

**Robert Kwan**

Okay. Just the last question on NTL, you're tracking really well for Forrest Kerr and then there, as you mentioned, expected to come in on May. As you talk with them, is there any scope for them to try to accelerate the timing, either their work or is there the potential for you to even try to help them out a little bit given if you have that line in before the big part of the run-off season there is actually quite a financial benefit to you?

**David M. Harris, President, Power and Gas**

We've had a working dialog going on with BC Hydro since the project has begun and those type of conversations have been taking place.

**Robert Kwan**

Okay. There is a scope for you to maybe help them out?

**David M. Harris, President, Power and Gas**

Essentially, yes.

**Robert Kwan**

Okay. That's great. Thank you.

**Operator**

Thank you. Our next question comes from Steven Paget of First Energy. Please go ahead.

**Steven Paget**

Well, thank you. In the power business, you sell, I believe, both the un-contracted power that you generate here in Alberta and the power you're entitled to from your PPAs as well as some power that you purchase for resale and where do these purchases take place at all in Alberta?

**David M. Harris, President, Power and Gas**

Yes, it is.

**Steven Paget**

And where do you buy them from other PPAs and so on?

**David M. Harris, President, Power and Gas**

It can come from a number of sources, but whether it's PPAs are on the direct market.

**Steven Paget**

Well, thank you, David.

**Operator**

Thank you. Our next question is from David Noseworthy of CIBC. Please go ahead.

**David Noseworthy**

Well, just one quick follow-up question on the Northwest project commissioning of Forrest Kerr. Is there an opportunity to do some of the commissioning work, maybe in a more atypical way if you had the power lines there to kind of speed up that commissioning process. Is that something that you're exploring?

**David M. Harris, President, Power and Gas**

No, we've already actually implemented that plan. When we turned around and built out the camp, David, we've added additional generating capacity, so for all intensive purposes, AltaGas is in a position to complete all the commissioning we can do short of having the NTL line in service.

**David Noseworthy**

Got it. So then just to get an idea of how long would it be between at the tie line coming on being commissioned and you being able to complete your commissioning, give a feel for that timeline?

**David M. Harris, President, Power and Gas**

I do. Under the original schedule, if we didn't add that added capacity, there would have been about a 90-day timeframe. Right now, we've got that timeframe probably down to 30 days, give or take maybe 5 to 10 days either side of that depending on how well things go once you tie into the NTL. So we've shrunk that by about 60 days comfortably.

**David Noseworthy**

Excellent. Okay. Thank you very much.

**Operator**

Thank you. At this time, there are no further questions registered. I'd like to turn the meeting back over to Mr. Nieukerk.

**Jess Nieukerk, Director Finance and Communications**

Perfect. Thank you. That concludes our first quarter 2013 conference call. As always, I or Debbie are available after the call here for any follow-up questions that anyone may have. Thank you everyone for joining us today.

**Operator**

Thank you. The conference has now ended. Please disconnect your lines. We thank you for your participation.