Q2 2012 Earnings Call
Company Participants

- David W. Cornhill, Chairman and Chief Executive Officer
- Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer
- Randy Toone, President, Gas
- David Harris, President, Power
- Shaun Toivanen, Treasurer

Other Participants

- Linda Ezergailis
- David Noseworthy
- Karl Keirstead
- Robert Catellier
- Robert Kwan
- Winfried Fruehauf
- Matthew Akman
- John Hansen
- Steven Paget

Presentation

Operator

Good morning, ladies and gentlemen and welcome to the AltaGas Limited 2012 Second Quarter Conference Call and webcast. I would now like to turn the meeting over to Mr. Shaun Toivanen, Treasurer. Please go ahead, Mr. Toivanen.

Shaun Toivanen, Treasurer

Thank you. Good morning, everyone. Welcome to AltaGas' second quarter 2012 conference call. Speaking today are David Cornhill, Chairman and Chief Executive Officer; Debbie Stein, Senior Vice President, Finance and Chief Financial Officer; David Harris, President, Power; Randy Toone, President, Gas.

After some formal comments this morning, we will have a question-and-answer session.

Before we begin, I would like 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.

AltaGas

David W. Cornhill, Chairman and Chief Executive Officer

Thank you, Shaun. Good morning, everyone.

This morning we reported net income applicable to common shares for the second quarter 2012 of 25.8 million or $0.29 per share compared to 13.3 million or $0.16 per share for the same quarter last year. On a normalized basis, net income for the second quarter 2012 was 10.4 million or $0.12 compared to $16.3 million or $0.20 per share for the same quarter last year.

On year-to-date basis we reported normalized net income of 50.6 million or a 12% increase over the first half of 2011. On a per share basis, we reported $0.56 for the six months ended June 30th, this compares to $0.55 for the same period last year.

We are very pleased with the progress on the regulatory proceedings related to the SEMCO acquisition. We received regulatory approval in Michigan and plan to close the acquisition on August 30th after receiving the Alaska regulatory approval. We'll report one month of results for SEMCO acquisition in the third quarter and the majority of the transaction costs associated with the SEMCO purchase.

The natural gas distribution utilities normal seasonality will see little contribution to earnings in the third quarter. We have made excellent progress on bringing almost 650 million in new and expanded gas and power assets into service this year, most of which is coming on in the second half of the year. We began commissioning the Blair Creek expansion which is underpinned by long-term contracts with three producers. The expansion increases throughput of the facilities by 50 million cubic feet a day and serves a liquid-rich area.

We are in commissioning phase of the Harmattan Co-stream project and on track to bring it into service in the third quarter. The Court of Appeal decision to dismiss the third party appeal removed the regulatory uncertainty around this project, so we are pleased with the decision.

At our new Gordondale plant, we are on track to be in operation late this year. Work is progressing well with over 400 people on site. Randy will give you more details, but we are looking forward to meeting our customers' needs to increase the value of their net backs in this liquids-rich Montney area.

We expect to close the purchase of Quattro midstream assets in the third quarter and move forward with the planning and design of a pipeline that will connect this plant and our Sylvan Lake plant to our JEEP facility next year. The project is expected to result in the JEEP plant being fully utilized. This is another example of our ability to leverage our assets to serve our customers' needs and enhance returns.

On the power front, our second Co-gen plant at Harmattan site went into commercial service on June 7th and is operating well. During the recent high temperatures and volatile power prices in Alberta, all our gas fired plants were firing on all cylinders. We also added the biomass assets earlier this year and they are performing better than expected. Construction at Busch Ranch wind farm is going well and we expect commissioning to begin in the third quarter, slightly ahead of schedule.

At our Northwest hydro projects in BC, Forrest Kerr is progressing well and at this time we are slightly ahead of schedule. We have moved into the construction phase at McLymont; David Harris will provide more details.

We're looking forward to bringing almost $1.8 billion in new assets which will add over $200 million in EBITDA on an annualized basis. This is the culmination of a great deal of hard work, executing our strategic plan that we envisioned many years ago. Growing our business by adding assets that are underpinned with strong contracts or regulatory returns that increase the stable earnings and cash flow.

With the addition of these new and expanded assets, our EBTIDA exposed to power and frac goes from about 40% in 2011 to below 20% in 2013. We will continue to hedge resulting in less than 10% of our overall EBITDA exposed to commodity prices.

Our business is going through a growth phase second to none. In the fourth quarter of 2012, we'll begin to see the results of all the hard work by the AltaGas team over the past four years. Our double-digit growth in earnings and cash flow positions us well to grow dividends and to continue to reinvest for the future.

I will now pass the call onto Debbie to discuss the operating results and financial overview.

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

Thank you, David. And good morning everyone. As David mentioned, we reported net income applicable to common shares of 25.8 million or $0.29 per share for second quarter 2012 compared to 13.3 million or $0.16 per share for second quarter 2011. The results this quarter include after tax, mark-to-market gains of 16.5 million as well as $1.1 million in acquisition related costs.

In second quarter 2011, we reported approximately $6.8 million in an income tax recovery, related to a change in the future tax rate assumption. On a normalized basis, net income for second quarter 2012 was 10.4 million or $0.12 per share compared to 16.3 million or $0.20 per share for the same quarter last year.

Normalized net income for the six months ended June 30, 2012 was 12% higher at 50.6 million compared to 45.3 million. On a per share basis, result was $0.56 for the six months ended June 30, 2012 compared to $0.55 for the same period last year.

Results in the second quarter 2012, reflect the seasonality inherent in AltaGas' operations. Second quarter is typically lower than first quarter as a result of lower earnings in the natural gas distribution utilities, lower power prices in Alberta and lower volumes in the gas business due to normal maintenance cycles for gas processing infrastructure.

Normalized results in the quarter were also lower as a result of outages downstream of two extraction facilities which impacted throughput at the AltaGas plants as well as lower volumes at some field, field facilities where producer shut-in gas or reduced drilling activity as a result of continued low natural gas prices.

Income from the operating segments was 38.7 million in second quarter 2012 compared to 45.6 million for the same period last year. For the six months ended June 30, 2012 income from the operating segment was 115.2 million compared to 114.1 million for the same period last year.

On a cash flow basis, normalized EBITDA for second quarter 2012 was 52.6 million compared to 58.6 million in same quarter last year. Normalized funds from operations for second quarter 2012 was 41.3 million compared to 46.5 million for same quarter last year. On a year-to-date basis, cash flow increased 8%, normalized EBITDA was 144.9 million compared to 134.2 million for the same period last year. Normalized funds from operations was 116.8 million compared to 108.1 million for the same period last year. During the first six months of 2012, AltaGas declared dividends of $0.69 per common share or 53% of normalized funds from operations on a year-to-date basis.

Operating income from the gas segment in second quarter 2012 was 19.5 million compared to 25.2 million in second quarter last year. While there were facilities that benefited from higher volumes processed, higher rates and lower operating expenses as well as the settlement of a customer dispute. The gas business reported lower earnings of approximately $3 million as a result of outages downstream of several facilities.

The decrease was also due to lower volumes processed, lower daily contract quantities in the transmission business, lower frac spreads and a one-time adjustment of a liability recorded in the second quarter last year.

In second quarter 2012, AltaGas had frac hedges for approximately 80% of frac exposed volumes at $35 per barrel compared to 70% hedged at $33 per barrel for the same quarter last year. For the remainder of 2012, AltaGas has hedged approximately 80% of its frac exposed volumes at approximately $35 per barrel. And for 2013, AltaGas has hedged approximately one-third of its frac exposed volumes at approximately $35 per barrel.

The power segment reported operating income for second quarter of $14 million compared to 15.5 million in second quarter 2011. While Alberta power prices were the lowest since third quarter 2010, AltaGas' power assets all generated more power than the same quarter last year.

The addition of new natural gas, biomass and hydro assets also resulted in higher operating income. The higher generation and higher power volumes hedged partially offset the impact of low power prices in the quarter. In the second quarter 2012, AltaGas' Alberta power generation was approximately 74% hedged at an average price of $72 per megawatt hour compared to 66% hedged at an average price of $69.70 per megawatt hour in same quarter 2011. For the remainder of 2012, AltaGas is approximately 60% hedged at an average price of $68 per megawatt hour. For 2013, AltaGas has hedged approximately 30% of its power exposed to Alberta power prices, at approximately $65 per megawatt hour. The utility business reported operating income of 5.2 million in second quarter 2012 compared to 4.9 million in second quarter 2011.

The increase was mainly due to the addition of PNG, rate-based growth at AUI and Heritage Gas and true-up of transaction cost recorded in 2011 related to the PNG acquisition. Results were partially offset by low approved rates at AUI and Heritage Gas.

Interest expense for second quarter 2012 was 13.1 million compared to 13.7 million in same quarter 2011. Capitalized interest in second quarter in 2012 was 8.3 million compared to 2 million in the same quarter last year and is expected to be in the range of 25 million to 30 million for 2012 based on our current estimates of timing of estimated CapEx.

Estimated capital expenditure for 2012 was approximately 1.6 billion, including approximately 780 million to close the SEMCO acquisition. AltaGas' capital program is fully funded with proceeds from the subscription receipts issued in February, preferred shares issued in June, equity from our DRIP -- internally generated cash flow and over a $1 billion in available credit facilities.

As David discussed, we are working hard on bringing on new and expanded assets in the second half this year that are expected to add over $200 million in annualized EBITDA.

With that, I will now turn the call over to Randy to talk about our major gas projects.

Randy Toone, President, Gas

Thank you, Debbie. And good morning everyone. In the gas business we are focused on cost control, consolidating and optimizing our bit -- processing assets and progressing in the construction and acquisition of over $500 million in gas assets to be in service over the next five months. I will provide an update on the two largest projects, the Harmattan Co-stream project and the new Gordondale gas plant.

Last week we announced the Court of Appeal decision dismissing the third party appeal of ERCB decision approving the Co-stream project. We are pleased with the outcome and we are on track to bring this project online in the third quarter. The pipeline portions of this project are essentially complete with only clean-up of the rider ways remaining.

As of mid-July all the major equipment required for start-up is on site and majority of the mechanical works had been completed, and the electrical and instrumentation works and commissioning of the new equipment has begun and is occurring in phases.

In the second quarter, we continued to experience equipment and material delivery slippages as well as challenges in working, in operating gas plant, which resulted in cost creep and a slight delay in the project start-up. The capital cost to complete the Co-stream project is estimated to be $180 million and AltaGas' expected annual EBITDA is approximately $30 million.

We are making good progress on the construction Gordondale deep-cut processing facility and we are on track to be in commercial service by the end of 2012. The new plant will provide high NGL recovery to producers developing the liquid-rich Montney play. The project is underpinned by a long-term gas supply contract with Encana.
We have made significant progress on the construction of this project in the second quarter. A majority of the equipment and materials, including major processing equipment, compression, pipe racks, liquid storage, are now on site and a great start to the mechanical and electrical instrumentation field work has commenced.

As of mid-July, mechanical work is approximately 80% complete, with instrumentation and electrical work, approximately 60% complete.

And a quick update for the Blair Creek expansion, we have begun commissioning this week and we expect the plant to be fully operational in the next couple of weeks. The expansion will increase the producing capacity by 50 million cubic feet a day to 82 million cubic feet a day to serve the Montney development in Northeast BC.

I will pass the call over to David Harris, to talk about the power projects.

David Harris, President, Power

Thank you, Randy. Good morning everyone.

On the power project front, things are going well. As you already know our Cogen II plant at Harmattan began delivering power to the grid on June 7th and the peakers at Gordondale are expected to be in service in third quarter. I am happy to report again this quarter the construction on Forrest Kerr is progressing ahead of schedule and on budget. Excavation continues to progress well, power house along with draft tubes are complete and the pre-foundation prep work has started in the power house. Power tunnel excavation is moving ahead at a better than expected rate, with over one-third complete to-date. Based on our current progress rate, the power tunnel is on track to be completed by the end of first quarter 2013 assuming rock quality remains consistent.

Excavation of the intake area which includes a sluiceway and desander has been completed. Foundation work for the stop logs, trash racks, forebay and radial gate is 93% complete. We are on track to complete this work in October, so we begin the in-river activities scheduled for this winter.

With respect to the transmission line construction, clearing of the corridor is ongoing and we awarded a contract for construction in early July. Engineering and procurement has begun.

At the McLymont project, we received our environmental assessment certificate and promise to begin construction of the access roads and bridges. To-date we are 55% complete with road construction, with one of the three bridges being installed. We expect the remaining permits for the construction of the major project by the end of 2012. Design of the power house and tunnel are progressing well and engineering of the intake structure has begun.

Permitting is well underway for the Volcano Creek project. No major issues have been identified and permits are expected early in 2013. Combined these two projects are estimated to cost approximately 300 million and are scheduled to be in service in late 2015.
That concludes my prepared remarks. I will now pass the call back to Shaun.

Shaun Toivanen, Treasurer

Thank you, David.

I'll now turn the call over to Valerie for the question-and-answer session.

Questions And Answers

Operator

Thank you, Mr. Toivanen. We will now take questions from the telephone line. [Operator Instructions]. Our first question is from Linda Ezergailis of TD Securities. Please go ahead.

Linda Ezergailis

Thank you. I have a question with respect to your gas business. I am wondering if you could provide some more color around the downstream outages were they planned, does it allow you to take advantage of that to do some extra work at your facilities or were they unplanned is that spilling over into Q3 at all? And can you give us a sense of the magnitude of the impact that...

David W. Cornhill, Chairman and Chief Executive Officer

Randy?

Randy Toone, President, Gas

The downstream curtailments were -- they were planned, but the impact to us was -- we didn't realize that the impact was going to have that big an effect on us. And so we expected the impact was around $2 million and that actually ended at end of Q2. And it's not continuing into Q3.

David W. Cornhill, Chairman and Chief Executive Officer

Linda just to add one point is that, we had two -- timing was quite impact. We thought we could divert some of our volumes to another facility which ended up going down as well. So that's why we are surprised by the impact.

Linda Ezergailis

Okay. And is that in revenue or in operating income or after tax or...?

David W. Cornhill, Chairman and Chief Executive Officer

3 million was operating income.

Linda Ezergailis

Okay. Thank you. And in terms of your dividend, we see pending closing of the SEMCO acquisition. Clearly, your payout ratio will drop significantly. Is there the potential that the Board may decide to accelerate the growth rate? Or are there other factors that you are considering given that you saw a lot of project growth then ahead of you?

AltaGas

David W. Cornhill, Chairman and Chief Executive Officer

We will continue, the Board will continue to monitor our progress on a major projects and closing at SEMCO with respect to dividends. Clearly, there is room to over the next via to core dividend modestly as I said in the past.

Linda Ezergailis

Thank you. And maybe you can give us some more color on the Farmington pipeline in terms of the nature of the contract that you have for that facility and is that cost of service or fee for service and what sort of duration is behind that?

Randy Toone, President, Gas

The long-term take or pay arrangement that give us the more than return on capital.

Linda Ezergailis

Okay great. Thank you.

Operator

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

David Noseworthy

Good morning.

David W. Cornhill, Chairman and Chief Executive Officer

Good morning.

David Noseworthy

Just a quick question on the North West pipeline. In terms of it's completion, is there any compensation mechanism, if Northwest pipeline completion is delayed?

David Harris, President, Power

This is David Harris. No, there is not. There is no compensation at the NGL line is late if you are indicating from BC hydro.

David Noseworthy

And you are saying it's still a spring 2014 completion for that pipeline?

David Harris, President, Power

That's correct. And we are in constant contact with BC Hydro and that they are working up in the area, obviously as well as we are. So we say pretty closely tied to the project.

David Noseworthy

And then in terms of looking at your JEEP. I guess the projects are bringing what would it be driven and totally blocking net volumes to your JEEP facility. Is there any low cost opportunities to expand that facility, should there be incremental demand?

Randy Toone, President, Gas

I don't think there will be a low cost, but there is the advantage of our JEEP plant is it's situated at the side at the Nova Chemicals shopping complex where they have a strong demand for ethane. So if anywhere a new a turbo expander plant will be built, be elected to be there.

David Noseworthy

And in terms of your Gordondale project it looks like you have $16 million capital cost remaining. How much of that is contingency?

Randy Toone, President, Gas

Sorry. Can you repeat the question?

David Noseworthy

So I was just saying that your Gordondale, I think you said there is a 244 million committed today and you are looking at total CapEx I think is 260 leaving you differential 16 million. I just wondering how much of that is contingency?

Randy Toone, President, Gas

Yeah. Probably not very much of contingency. That's our estimates of amount of the work that's left. When we look at the amount of work is left with all the equipment there and most mechanical and electrical work complete, there is very low risk of for that to shift by a wide amount.

David Noseworthy

And then finally in terms of your NGL hedges, should we expect you to add to your 2013 power in NGL hedges in the second half of this year?

David Harris, President, Power

Yes, we'll probably look to turnaround and start pressing up at present hedge as we got to the second half of 2012.

Randy Toone, President, Gas

Same thing on the frac spreads we are waiting for the opportune time to lock in more frac hedges. Usually the fall is probably best to swing, the NGL prices are stronger.

David Noseworthy

One last question. In terms of, how do you had with your producers that have shut in due to power or to low gas prices, have you had conversations with them as to what kind of gas prices they think they need to see before they could come back on line?

Randy Toone, President, Gas

Yeah, we are always talking with our producers especially when they have indicated that they will be shutting in the gas. So we try to work with them on the current processing arrangements to see if we can keep it on stream. And so yeah, we are costumed for this and we know where the hurdle rates are in dry gas areas. There are not a good price that we are seeing right now.

David W. Cornhill, Chairman and Chief Executive Officer

We had just seeing some gas, dry gas come on with the anticipation of winter pricing.

David Noseworthy

Well, that's good news. Well, thank you very much. Those are my questions.

Operator

Thank you. Our next question is from Karl Keirstead of BMO Capital. Please go ahead.

Carl Kirst

Thanks. Good morning everybody. Actually just of the dry gas I apologize if this magnitude was already given and I missed it my notes. But how much dry gas was being shut in actually in the second quarter and I guess if you could quantify that statement that was just made us how much is actually come back in?

Randy Toone, President, Gas

We estimate approximately 40 million cubic feet today was shut-in or diverted in Q2. The amount of gas that currently has come back on it's not lot as around 5 million cubic feet a day.

Carl Kirst

Okay. Alright. Thank you. That's helpful.
And then just actually a question sort of more clarification for me with respect to JEEP pipeline project. The economics that or behind that or I guess one should we think about in the sort of the same type of six, seven multiple of EBITDA for the $100 million of investment. And then sort of a corollary question, is that whatever the return is that back stopped by the actual volumes on the pipe itself, meaning is there an additional kicker by using the excess capacity achieved or is that excess capacity utilization part of the returns on the $100 million?

David W. Cornhill, Chairman and Chief Executive Officer

And you should expect around six times and if the $100 million includes some modifications at the plants and pipeline. And so its all inclusive.

Carl Kirst

Okay. And then last question if I could just more industry for me with the resolution of Sundance earlier this week, David how did you see power curves, for instance, in 2014, 2015 react?

David Harris, President, Power

We've seen a little bit of a rippling effect. 2014 is coming down about $5 dollars or so and we expect that to be the case. And I think as people got a better understanding of what this means and what trends off this trajectory will be for Sundance 1 and 2, things will probably end up settling down a little bit. But as and when a significant variation perhaps come down a little bit.

Carl Kirst

Okay. So at this point kind of in at 60, 61 area last I checked in?

David Harris, President, Power

Certainly. That's correct.

Carl Kirst

Perfect. Thanks guys.

Operator

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

Robert Catellier

Thank you. Just a follow-up on that last question will be, the Sundance hearing alter your power investment or hedging strategy at all?

David Harris, President, Power

Not really appreciable at this point. We will focus on our hedging with '13. We always keep a watchful eye among outlined years. And as we get a few moments behind this and get a clear vision what we think '14 will hold, we'll make decisions... and but right now we don't see it affecting us appreciably.

Robert Catellier

So still hoping to have somewhere between 50% and 30% two-thirds hedged going into any year?

David Harris, President, Power

Yes. That's about right.

Robert Catellier

Okay. And how is the outlook for LNG opportunities changed given recent contract towards in the industry and some of the discussion and we see about excluding LNG export facilities from the Clean Energy Act. And the 93% clean energy goal they have there?

David W. Cornhill, Chairman and Chief Executive Officer

We just see continued momentum, just to our recent announcement of looking to expanding our PNG. It's still not a small task to develop LNG of the West Coast, but we are very excited about all the opportunities we see there.

Robert Catellier

Okay. And then may be Debbie we can take this question offline. But I need a clarification on the realized frac spread of 2,764.

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

Okay.

Robert Catellier

On this spot was 2,685 and you are 80% hedged at 35 I believe it was.

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

Okay.

Robert Catellier

And then just finally I want to make sure I understand the utilities are well clear. So, the 40 million EBITDA we expect for the addition of SEMCO will occur effectively in the fourth quarter. So, given the seasonality and transaction cost in the third quarter, there is probably going to be very little contribution until Q4?

David W. Cornhill, Chairman and Chief Executive Officer

Yeah. There will be probably a little drag with the full interest rates and for the quarter and transaction cost.

Robert Catellier

And maybe even more if I can just on the producer's side what are you doing in terms of mitigating volume risk and credit risk on the fuel gathering and processing side?

Randy Toone, President, Gas

AltaGas's credit review processe is fairly thorough and we do take a look at all kind of price quite closely and we monitor our existing counterparties quite closely. Aur contracts allows us to take aggressive action if wanted as in the natural gas or lean their gas, even and also net their NGLs.

Also, we have over 300 producers and no producer makes up a material part of our aged AR. And we have actually seen our aged AR trend down the last few years. So, we've been monitoring this quite closely over the last few years anyway.

Robert Catellier

So, there has been the recent deterioration in your collection experience?

David Harris, President, Power

No.

Robert Catellier

Okay. Thank you. Those are my questions.

Operator

Thank you. And our next question is from Robert Kwan of RBC Capital Markets. Please go ahead.

Robert Kwan

Great, thank you. Just on the Forrest Kerr. Just wondering if you've got the dollars left to spend and if there is a refresh on the percentage of total costs that are locked in?

David Harris, President, Power

No we are running in the high 80s, approaching the low 90% from locked in perspective and taking into accounts what we full year project we are well over approaching 70% complete on the project and just undergoing the 50% spend. So, we are in good position for the key indicators.

Robert Kwan

Okay. And with respect to extraction premiums, can you just comment how you've seen the movements at your facilities versus the decline in fracs spreads? Have they been falling in tandem or because of the way your contracted is it hurting you at this point?

Randy Toone, President, Gas

Yeah, our extraction and premiums, we know they have gone up over the last few years. Some to do with the NGL prices going up. But also just to Empress and the amount of gas going through Empress. And so we lock in basically an extraction premium and that doesn't necessarily float with the NGL price. And so with ... it had some more impact.

Robert Kwan

So put differently you are seeing kind of an extra squeezed than this year? and I hope I guess as you get into the next contracting year fracs spreads stayed down here you might actually get a little bit of a lift?

Randy Toone, President, Gas

Yes.

Robert Kwan

Okay. And just last question, it's more of what you are seeing across all of your projects but certainly cost pressures has been a big thing in Western Canada. And so as you look forward into your contracts and some of what you've seen at your own projects, are you trying to work additional protection in or if you are not are you trying to increase the contingency?

David W. Cornhill, Chairman and Chief Executive Officer

Some we have... it varies depending on negotiations but some of them we've had a cost sharing in terms of moving forward. So we may take 25% of the cost risk and customer takes 75, others we have 100%. But we clearly looking at returns and expected returns being higher because of the potential cost risk.

As well we are working on techniques to try to control cost, pre-fab as much as possible looking at other sources other than Alberta in terms to pre-fab to try and control the cost, doing as little work in the field as possible. So, we are looking at strategies to contain the costs. And I think we are successful that to competitors' advantage.

Robert Kwan

But I guess maybe also as well directionally there where you might have been negotiating a year or two years ago. Are you being more cautious by increasing contingency or you're asking for getting additional production?

David Harris, President, Power

Yeah, we are pretty more cautious on the... especially in Alberta market place with respect to construction costs.

Robert Kwan

Okay. That's great. Thank you.

Operator

Thank you. Our next question is from Winfried Fruehauf of W. Fruehauf Consulting. Please go ahead.

Winfried Fruehauf

Good morning. What was the debt equity ratio of AltaGas at the end of June of this year?

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

It was 48.5% Winfried.

Winfried Fruehauf

And what is the pro forma debt to equity ratio after the completion of the SEMCO acquisition?

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

It would be between 55 and 56.

Winfried Fruehauf

And when, in what quarter do you expect the SEMCO acquisition to be earnings positive...accretive I mean?

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

It would be... sorry?

Winfried Fruehauf

Running accretive.

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

It would be Q4. Q3 when we close the acquisition, we'll see one months of our earnings which would be September. And we'll have a one month of interest plus the transaction costs that will hit the P&L, but in Q4 we'll have a full quarter in terms of contribution.

Winfried Fruehauf

What are your plans to reduce your debt to equity ratio after the SEMCO acquisition?

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

Right now we are comfortable with where the pro forma ratio is landing. We'll continue to monitor that and obviously we keep in touch with the rating agencies as well. But when you look at the quality of the cash flows coming on in the second half of the year between the regulated assets and the long-term contracted in the gas business, we think that we can manage through this period as we build out the rest of our capital program to ensure that we're managing our debt to total cap prudently. So, right now our capital program is pretty much fully funded. We don't have any immediate needs to go to the equity market.

Winfried Fruehauf

Okay. Thank you very much.

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

Thank you.

Operator

Thank you. Our next question is from Matthew Akman of Scotia Bank. Please go ahead.

Matthew Akman

Thank you. I guess I wanted to go where Rob Catellier was trying to go on frac spreads and maybe we can explore that on the call a little bit. And I was interested you guys talked a lot about premiums in the quarter. And I am just wondering if you could expand on that and if that's the reason why realized was so much lower than the hedged price, with so much hedged. That's unusual relative to what we've seen in the past?

Randy Toone, President, Gas

Yeah, the $35 frac spread number that we disclosed does not include extraction premium and so that's why that might have been misleading. And so that didn't have the impact on our realized frac spreads in Q2.

Matthew Akman

Where do you have extraction premium exposure other than Empress?

David Harris, President, Power

We pay extraction premiums at other facilities, but not as much as Empress.

Matthew Akman

I just wouldn't have thought you guys had that much exposure to Empress. So I am wondering whether in Edmonton, there is significant exposure to premiums?

David Harris, President, Power

Not at Edmonton. No, we don't have frac spread exposure there at Edmonton.

Matthew Akman

So Younger?

David W. Cornhill, Chairman and Chief Executive Officer

There some at Younger.

David Harris, President, Power

There are some at Younger, yeah.

David W. Cornhill, Chairman and Chief Executive Officer

And the other thing that's realized assume to 10% differential.

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

Or $10.

David W. Cornhill, Chairman and Chief Executive Officer

$10 differential. And saw at Edmonton some of our pull out a little bit in terms of differential from Mount Belleview

Matthew Akman

Okay.

David W. Cornhill, Chairman and Chief Executive Officer

We are now at 100% perfectly matched on differentials. So, when we talked about hedged price, we put a $10 differential in that.

Matthew Akman

Okay I see. I see. So it's actually the difference what's affecting you guys in realized is actually the discount for NGL prices back in Alberta?

David W. Cornhill, Chairman and Chief Executive Officer

Yeah. There is three markets. There is Edmonton, there is Conway and Mont Belvieu. And from a hedging prospective, the only liquid one in Mont Belvieu. We have combination of Mont Belvieu-Conway and Edmonton pricing.

Matthew Akman

So this kind of difference between realized and hedged could go on even if premiums come in?

David W. Cornhill, Chairman and Chief Executive Officer

If it changes from the $10 that we've put in. We've seen a variation and it's been historic movement consistent with past few years.

Matthew Akman

Okay. But there is no significant competition for liquids at Edmonton assaying, right?

David W. Cornhill, Chairman and Chief Executive Officer

There is none at Edmonton. There is some at Younger with Alliance, and there is none at JEEP or Harmattan.

Matthew Akman

Okay. Thank you for that. Couple other just small questions if I could. One is Debbie I am wondering if you could quantify roughly, in the Gas segment there was a settlement of a customer dispute. Is it worth quantifying?

Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer

It was about 3 million.

Matthew Akman

Okay. Thanks for that. And my last question is on gas distribution. You guys talked about doing CNG in Nova Scotia. It just wasn't totally clear to me whether those are rates based investments or competitive market investments?

David W. Cornhill, Chairman and Chief Executive Officer

We expect them to be rate based investment.

Matthew Akman

Okay. Thank you very much. Those are my questions.

Operator

Thank you. Our next question is from John Hanson of Precidus. Please go ahead.

John Hanson

Good morning.

David W. Cornhill, Chairman and Chief Executive Officer

Good morning.

John Hanson

Most of my questions are answered but just a two more quick ones here. On the new co-gen at Harmattan, I noticed... I just want to ask how was that contract did…or what's the pricing on that here in the near term?

David Harris, President, Power

It's not contracted from a hard standpoint as far as an uptake agreement. It actually rolls right through and supports our gas and then we float a very small percentage to the Alberta market about 4 megawatts actually is exposed to Alberta market.

John Hanson

So you would have picked up some of that big pricing you saw back?

David Harris, President, Power

It picked up all of it.

John Hanson

Excellent. Second question I have was just on the process there in Alaska. As one following that's been really quiet. Its 'the next thing I am watching for I think they have got August 15th date I am just looking for an order, I know you guys put a proposed or out right, or draft?

David W. Cornhill, Chairman and Chief Executive Officer

Yeah, we expect the order to come out in August.

John Hanson

So, no additional hearings, no additional things that you know about other than the order?

David W. Cornhill, Chairman and Chief Executive Officer

That's correct.

John Hanson

Good thank you.

Operator

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

Steven Paget

Good morning and thank you. At Forrest Kerr, costs have gone well. But if LNG in Northwest BC goes ahead, will that affect labor costs and the potential cost of McLymont and Volcano?

David Harris, President, Power

No, will not. We'll be well past and complete before that construction center where we have any kind of hit from pressures of labor and the type of skillsets that LNG supports.

Steven Paget

Okay. And how much of the remaining volume of rock is left to be excavated for Forrest Kerr? Is it just the remaining two thirds of the power tunnel?

David Harris, President, Power

That's correct. Just about 30%. It's a little over 30% of rock excavation is left.

Steven Paget

Okay. Thank you. Those are my questions.

Operator

Thank you. There are no further questions registered at this time. I would like to turn the meeting back over to you Mr. Toivanen.

Shaun Toivanen, Treasurer

Okay. Thank you, Vallery. And thank you to everyone for participating in our call this morning. If you do have any other further questions, please don't hesitate to contact us. Thank you.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. And we thank you for your participation.