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PRESENTATION

Operator

Good morning, ladies and gentlemen, thank you for standing by. Welcome to the AltaGas Second Quarter 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being broadcast live on the Internet and recorded.

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

Adam McKnight - AltaGas Ltd. - Director of IR

Thanks, Kenzie. Good morning, everyone, and thank you for joining us for the AltaGas Q2 2019 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. And we're also joined here today by several additional members of our executive team.

As the operator noted, today's prepared remarks will be followed by an analyst question-and-answer period. And I'd remind everyone that the Investor Relations team will be available after the call for any follow-up questions or any detailed modeling questions that you might have. This call is webcast, so we encourage everyone listening on the phone lines to view the supporting slides, which are available on our website. A replay of the call will be available later today along with the transcripts, both of which can be accessed through our website.

Before we begin, I'll remind everyone that we will refer to forward-looking information on today's call, this information is subject to certain risks and uncertainties as outlined in the forward-looking information disclosures here on Slide 2 and we're fully within our public disclosure filings on both the SEDAR and EDGAR systems.

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

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

Thank you, Adam, and good morning, everyone. It is my pleasure to welcome you to our 2019 second quarter results call. Before I go into an overview of the quarter, I want to take a moment to introduce you to our new Executive Vice President and Chief Financial Officer, James Harbilas, who you will be hearing from shortly.

James joined AltaGas on June 10 and in just 8 weeks, has already made a measurable impact on the business. As we look at the important work we have ahead of us, capitalizing on the enormous organic growth potential of our core assets, improving operational excellence and integrating our businesses and further strengthening our financial position, James quickly stood out as the right person for the job. He is a results driven leader with more than 20 years of experience in the energy and utility sectors, including 11 years in the CFO seat at Enerflex. He has a proven track record of building and transforming functions, which is vital, as we continue to optimize our business to drive performance. On behalf of the Board of Directors and the entire organization, welcome James.

Now moving on to our results. A little over 7 months ago, I laid out a plan that would refocus the company, capture the intrinsic value of our core assets and regain our financial footing, providing us the flexibility to capitalize on the significant investment opportunities ahead of us. I'm pleased to share that we have made tremendous progress against these goals and that progress is clearly evident in our Q2 results and accomplishments.

In the quarter, we announced the sales of Stonewall pipeline in our U.S. distributed generation portfolio, latter which has transformed AltaGas into a more focused Canadian midstream and U.S. utilities company. We also saw EBITDA come in approximately 20% higher over last year. This was driven by strong performance in our Midstream segment, which included contributions from recently commissioned Ridley Island Propane Export Terminal or RIPET, as we refer to it, which saw its first three ships loaded in May and June and contributions from WGL.

Lastly, the sale of $1.3 billion of non-core assets this quarter moves us significantly closer to our stated goal and further strengthens our financial footprint. James will get into these numbers in a little more detail, but I want to note one important observation. This quarter along with our last one, reinforces our focused strategy as our base business continue to perform very well and are more than compensating for any lost earnings as a result of asset sales to-date.

Turning to our near-term priorities. We have moved swiftly and decisively over the last several months to execute on our asset sale program to de-lever our balance sheet, fund our capital program and maintain our investment grade rating. Our asset sale program continues to have a very robust response. We're even more confident that we will meet or exceed the targets we laid out for this year. Early last week, we announced the sale of our U.S. distributed generation portfolio for approximately $940 million or a USD720 million, representing a strong multiple of just over 12x 2019 estimated EBITDA. This valuation is accretive to FFO to debt and earnings per share. This transaction, combined with the sale of Stonewall completed last May, brings us to a total of $1.3 billion in asset sales announced or completed to-date, just shy of our 2019 target of $1.5 billion to $2 billion. The proceeds we've received from this transaction will be used to both pay-off a portion of the debt, which James will address in more detail, as well as fund profitable growth initiatives in our core businesses.

We remain confident and committed to the balanced funding plan we announced last December and as we gain, our financial strength and flexibility, we'll continue to move towards a self-funding model. In addition, we have a number of other sale processes underway and we continue to see strong and sustained interest from numerous high-quality counterparties, which is a clear indicator of the value of these assets. With the wind at our back from our recent asset sales and the projected valuations of our remaining non-core assets, our attention is now intensified on the future and our ability to capitalize on the full opportunity set ahead of us in our Utilities and Midstream segments.

Our strategic priorities are straightforward and include, maximizing the unique structural advantage we have created with our integrated platform in the Montney, which is underpinned by RIPET in our LPG export strategy. Enhancing our returns and capturing the growth opportunities across our utilities and driving a performance-based culture to achieve a high level of operational excellence. We've made significant progress on these priorities over the first half of the year and specifically during the second quarter with the commercial startup of RIPET and the filing of the WGL Maryland and SEMCO rate cases.

First, for those of you who have heard me speak, you know, how excited I'm about RIPET and the competitive advantage it provides within our Canadian Midstream business. We see this project as a game changer, not just for AltaGas, but also for Canada and the natural gas producers we serve every day. RIPET is part of the solution for producers providing much needed LPG egress to premium markets in Asia and lessening the dependency on the U.S.

Now into our third month of operations, we are seeing positive contributions in this business that fall in line with our expectations. Volumes have steadily increased to our target capacity. The first cargo departed in May with 2 additional shipments in June and another 2 in July. I'm pleased to report that through June, we sold 1.36 million barrels of LPG from RIPET to Asia, generating approximately $13 million in EBITDA or $9 per barrel. While I'm excited with these results, they were not unexpected as the Far East Index has been trading at a premium to Mount Belvieu and shipments from RIPET have a structural advantage compared to the U.S. I'm equally excited from our producers, who have contracted tolled the propane through RIPET. As they too were the recipient of this global market premium.

Going forward, we expect to sell approximately 1.2 million barrels per month or 40,000 barrels per day to Asia. Of those 40,000 barrels, approximately 11,000 barrels are toll for which we will pass through Asian prices less tolling and transportation fees to our producers. For the remaining 29,000 barrels, we pay Edmonton prices, plus transportation fees and in return realized FEI premiums.

The combination of our tolling volumes and our active merchant hedging program has the effect of locking in our base-load margin on approximately 80% of forecasted 2019 sales. The remainder of our barrels are currently unhedged and floating with the market spread, which continues to remain strong and we will continue to opportunistically hedge these remaining volumes. Any additional barrels liquefied above 1.2 million barrels will be spot-based and provide additional upside to AltaGas.

While we are pleased with the margins we are generating from the merchant aspect to RIPET, our strategy remains unchanged: use the RIPET advantage to capture additional tolling arrangements with producers, increase the utilization of our existing processing and fractionation assets and position us for additional investment in the Montney.

Our ability to handle a molecule from gathering and processing to liquids handling, fractionation and export offers our customers a complete solution and a very attractive return profile for their product. This has been a tremendous accomplishment and I applaud the team that worked tirelessly to bring it online, on time and on budget.

The economics around RIPET are compelling and positive for both our customers and for us. Our RIPET advantage continues to attract increased volumes to our Midstream complex. This value-added approach to our customers is the foundation of our Northeast B.C. growth program, which includes expansions that are North Pine and towns and facilities anticipated to come into service in the first quarter of 2020. Work also proceeds on the Nig Creek gas plant that we co-own with Black Swan. The facility is expected to come online in the fourth quarter of 2019 and is currently on schedule and on budget.

Projects like these leverage our existing infrastructure and deliver very strong integrated economics, while increasing our ability to touch more barrels and expand our overall strategic footprint.

Moving forward, we will continue to explore opportunities to leverage RIPET LPG premiums to expand our customer base and drive additional high value of investment in the Montney. Our utilities balance our portfolio with low risk growing cash flows that are stable and predictable. We expect to see significant growth in this segment in the future. Reflecting exposure to higher growth markets with capital expenditures, support customer additions and accelerated replacement programs.

In the second quarter, our utilities performed as expected contributing $81 million in EBITDA. Our strategy in our Utilities segment is driven by intensifying our focus on operational excellence, which we define as operating a safe and reliable system, providing exceptional service to the more than 1.6 million customers we serve and enhancing efficiencies to reinvest earnings and increase returns. We continue to work towards earning our allowed returns on a more timely basis across our Utilities. Rate cases offer one mechanism to close this gap. Currently we have active rate cases in 3 of our 5 operating jurisdictions and applications under review for accelerated replacement programs to renew aging infrastructure in the District of Columbia, and in Michigan. Interim rates have taken affect in Virginia, as of January of this year and in Maryland, we expect new rates to go into effect this December, with new rates in place in Michigan, no later than April 1, 2020.

This critical first step of updating our rates to reflect our current cost structure will drive earnings growth in 2020. Also in 2020 with the exploration of our regulatory rate stay out commitment, that ends December 31, 2019, we will be filing a general rate increase request in Washington Gas Light's, District of Columbia jurisdiction. Upon completion of these remaining cases, we will have updated our rates across all of our jurisdictions. There is also a great deal of opportunity to enhance our performance, update aging infrastructure and continually improve our service offering for our utility customers, and this is where our team will be laser focused for the balance of this year and into next.

In summary, we continue to reposition AltaGas as a low risk, high-growth utilities in midstream company. The financial results and significant accomplishments that we achieved this quarter, continue to move the ball down the field in a big way. Our second quarter results were up more than 20% year-over-year, despite lost earnings due to asset sales, singling our base business is healthy and performing as it should be. In just 7 months, we have improved our financial strength materially by announcing $1.3 billion in non-core asset sales and are well on track to meet or exceed our 2019 asset sale program target of $1.5 billion to $2 billion.

Operationally and commercially, our cornerstone project RIPET was successfully commissioned and is making a significant positive financial impact for us and to our producer netbacks. We are confident that we will continue to attract additional volumes to our midstream footprint as a result of this unique capability. In our Utilities, we continue to make progress on improving our distribution pipeline infrastructure in driving more timely and appropriate returns to accelerated rate recovering mechanisms and new rate case filings in our Maryland and Michigan jurisdictions. And finally, we remain on track to meet our guidance for 2019.

In the back half of 2019, we will continue to build on this momentum and stay focused on delivering our near-term priorities. I'm confident we will enter 2020 in a much stronger position, applying capital disciplined to our core businesses, driving efficiencies through business optimization, capturing increased and timely returns in our utilities and enhancing value for you, our shareholders.

With that, I will turn the call over to James to review the financial results.

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

Thanks, Randy, and good morning, everyone. First off, I'd like to thank Randy and the Board of Directors for the trust they placed in me. I'm excited to join the AltaGas team as the Chief Financial Officer and look forward to working alongside the AltaGas leadership team to achieve our near and long-term priorities.

To recap, these are deliver a balance sheet that maintains an investment grade credit rating, complete our asset divestiture program, focus on optimizing the business, including the integration of WGL and working to fully capitalize on our organic growth opportunities in Utilities and Midstream. Joining AltaGas to support the strategic plan to unlock the value of its strong asset base was very compelling.

In my prepared remarks, I'm going to walk you through a few key areas. Performance of the business, our capital program and funding plan, the de-leveraging plan and balance sheet and our 2019 guidance and drivers that are expected to positively impact 2020.

AltaGas delivered another strong quarter. Our Utilities and Midstream groups delivered solid operational results and we also made significant progress on our near-term priorities, including executing on non-core asset sales, de-levering our balance sheet and funding organic growth. Our base business is performing very well. In fact, it grew by approximately 20% quarter-over-quarter adjusting for both the impact of WGL and our asset sales.

On a consolidated basis, asset sales reduced Q2 2019 EBITDA by $72 million compared to last year. The asset sales included the AltaGas Canada IPO, the sale of the Northwest Hydro facilities, Canadian non-core midstream and power assets, as well as the sale of the San Joaquin power facilities. AltaGas recorded normalized EBITDA of $203 million, representing a 22% increase over the same period in 2018. As expected, the largest driver of the positive quarterly results were contributions from our WGL assets. In total, the WGL assets contributed $77 million across all three of our segments; $41 million in the Utilities, $21 million in the Midstream segment and $15 million in the Power segment. Normalized funds from operation of $120 million for the quarter reflect many of the same drivers as normalized EBITDA, which I will outline shortly, partially offset by higher interest expense.

Normalized net loss was $5 million or $0.02 per share for the quarter compared to normalized net income of $23 million or $0.13 per share for the same quarter in 2018. The decrease was related to higher interest expense and depreciation, amortization expense, partially offset by factors impacting normalized EBITDA. Digging slightly deeper into our segments, our Midstream segment reported strong Q2 results with EBITDA up over 100% over the same period in 2018. The WGL assets were positive contributors for the quarter alongside increased export volumes at Ferndale from our equity investment in Petrogas.

Results in our base Midstream business remains strong and we are seeing healthy volumes at our plants. This is a direct result of the work we have done with respect to our Northeast B.C. and energy export strategies that have created an integrated value chain connecting our customers from wellhead to export markets in Asia. The Cornerstone asset of Canadian midstream strategy RIPET came into service this quarter, generating approximately $13 million in EBITDA. Total propane volumes exported to Asia in the quarter were approximately 110,000 metric tons representing about 3 ships of product. Overall, we are pleased with the performance of the facility to-date, volumes have steadily increased to its current 40,000 barrel per day capacity and we continue to improve operational efficiencies.

Within our Utilities business, we saw an increase in normalized EBITDA of $31 million compared to last year. This is largely attributed to the addition of the WGL utilities, partially offset by the ACI IPO. Other variances in the quarter were neutral, but included a stronger U.S. dollar, lower operating expenses and customer usage, impacts of U.S. tax reform and warmer weather in Alaska. You can see in the second quarter and we'll see again in the third quarter, a sharp decline in utilities earnings driven by the warmer weather experienced in the summer months.

Lastly, the Power segment normalized EBITDA decreased to $34 million as a result of the sale of the Northwest Hydro at San Joaquin facilities and the ACI IPO. The extended spring outage at Blythe also negatively impacted EBITDA by $3 million. All of this was partially offset by contributions from WGL's Power segment.

As you know, next quarter will represent a full year of consolidating our acquisition of WGL. And with that, we expect that this will be the last quarter, we will be providing the same level of detail on its performance by segment. But this quarter, however, I will quickly outline some of WGL's results as compared to the same quarter last year. At the utilities, results were in-line with our expectations. We did see favorable customer growth and we do expect on an annual basis for our Washington Gas utilities to benefit from new rates that have gone into effect this year. However, with portions of the accelerated replacement program is now being incorporated into customer rates, the revenue is earned based on usage, which has seasonality.

Accelerated replacement program revenue conversely is earned in a linear fashion, throughout the year. This creates a timing change in when revenues recognized and this has contributed to lower performance this quarter. Other factors impacting the quarter included unfavorable variances of warm weather and higher operating costs, partially related to increased leak repairs. As a result, the Washington Gas results were down slightly year-over-year.

WGL Midstream assets contributed favorably with Central Penn in-service and increased AFUDC on Mountain Valley. These were partially offset by compressed storage spreads, the sale of Stonewall and higher operating costs. Results in WGL's Power segment were down as a result of higher capacity prices in the first half of the year, combined with higher operating costs.

Turning to our capital program and balanced funding plan for 2019. We continue to improve our financial flexibility, particularly given the success of our 2019 asset sale program. We remain comfortable with our 2019 funding plan. Our total funding plan for 2019 is approximately $4 billion and was designed to de-lever and stabilize the balance sheet, through a combination of asset sales, disciplined capital allocation and a repositioning of our dividend. With the achievements we have seen to-date on our asset sales program, you will notice that we have removed hybrids and press from our funding plan.

We will continue to monitor these markets and plan to only execute on an opportunistic basis and when they have a positive effect on our credit metrics. The funding plan includes the $1.3 billion in capital projects, where we have a clear line of sight to a significant number of high-quality organic growth opportunities. These opportunities reflect the underlying strength of our Utilities and Midstream businesses. We continue to execute on our capital projects both on time and on budget. Year-to-date, we have spent approximately $700 million of over $1.3 billion capital program. The focus of spending has of course been on the completion of RIPET as well as system betterment and accelerated replacement program spending at our utilities. In the back half of the year, the majority of the remaining spending will be geared towards the completion of the Townsend and North Pine expansions, the Nig Creek facility, the Marquette Connector Pipeline as well as additional expenditures related to the accelerated replacement programs.

The balance of our funding plan is focused on debt repayment, and as we have mentioned, we have already made excellent progress. In 2019, we expect to have total debt repayments of approximately $3 billion for the full year. In the first half of the year, we have already achieved a reduction in net debt of $2 billion. With this progress, our focus is shifting towards executing on the organic growth opportunities, drive meaningful contributions in 2020 and beyond.

Our investment grade credit rating continues to be fundamental to our strategy. As you know, it provides us with a greater financial flexibility and a lower cost of capital, which in turn supports growth going forward. We designed our 2019 capital and funding plan with the very clear goal of maintaining an investment grade credit rating. We expect our capital and funding plan along with a lower risk profile of our overall business mix and the dividend reduction will all contribute to improving investment grade credit metrics over time.

Our 2019 capital and funding plan remains on track and we expect our metrics to support this investment-grade rating. As we have discussed in the past, we expect our credit profile to improve as we execute our growth capital and new capital projects enter service. Supported by strong results in line with our expectations as well as our confidence in our performance in the back half of the year, we remain comfortable with our consolidated normalized EBITDA guidance range of $1.2 billion to $1.3 billion.

As we looked at the back half of the year and beyond, I thought now would be a good time to provide some perspective on drivers for 2020. It is too soon to be providing full guidance at this point in the year, we plan to update the market following the completion of our planning cycle later this year.

Based on a combination of factors, we expect the 2020 normalized EBITDA to remain at least in line with 2019 after incorporating EBITDA loss from our asset sale program this year. The key drivers of our normalized EBITDA growth in 2020 include benefiting from our investment in our energy export strategy including a full year of RIPET, increased gas processing volumes from the Townsend expansion, as well as contributions from the Nig Creek Gas Plant and the expansion of our North Pine fractionator.

Growth in our utilities, we expect to benefit from the investment in the Marquette Connector Pipeline, customer growth as well as improvements in our earned returns.

In conclusion, AltaGas has made tremendous progress in reshaping its business and creating greater financial flexibility over the past several months. Looking to the future, I believe that with the combination of appropriate capital discipline. Business optimization and operational excellence, position us to deliver strong performance.

And with that, I will turn the call over to the operator to facilitate the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Robert Kwan, RBC Capital Markets.

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

Maybe I'll start with the RIPET. It's early, but you've got very strong results out of the gate. So I'm just wondering, how are you thinking about expansion particularly given the low capital intensity? And do you just proceed on it. Given the low capital intensity. Just to have that capacity in place to capitalize on market dislocation?

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

Good morning, Robert. Thank you. Clearly, I will tell you the expansion of RIPET is real and the value proposition, as you mentioned is very low capital for very high potential and so we are continuing to build our core competencies. Quite frankly, you can't underestimate the capabilities we're building and how that's going to position us for the low cost expansion. So with respect to the question. We continue to hone our skills, we're investing in things that improve our logistics capabilities and that would be around the rail and other logistics capability. So again, overall, small capital for a significant upside. So we'll continue to work toward each and every day, getting to the design capacity 80,000 barrels.

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

Got it. So Randy just so I'm clear, it sounds like it's a little bit more of making sure you've got all your ducks in a row, operationally and logistically rather than necessarily needing contractual backstops given how little capital it would take?

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

That's right. Absolutely, it's very little capital for high return as I said and really we're working to just to focus on improving those logistics. But look, we're just starting. We're focused on moving our 40,000 barrels a day and will continue to be able to exceed that as we move forward.

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

Okay, great. If I can turn to U.S. midstream, just finish here. Couple of questions. First on, Central Penn and to the extent that it is something that's on your list for sale. I'm just wondering based on in-bounds whether it's formal or informal, just what's the sentiment out there with respect to Marcellus midstream kind of pressure that we've seen. How is that impacting or not impacting Central Penn in your thought process? So that's kind of the first question. The second is just on MVP, I know you've got protection on cost. I'm just wondering, do you have protection on timing, can you talk just about some of the potential protections to the extent that the walk clause that's out there for EQT and where you might have protection or not have protection ?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

Well, let me, I'll take your first question, overall on asset sales in Central Penn. No, we haven't, again, as I said in my prepared remarks, we're seeing robust interest from strong counterparties on all of our asset sale, our non-core asset sales in that obviously includes our non-operating positions in the Marcellus. So no impact there. With regard to MVP, again, I think they're moving ahead very effectively. I think it's a value added pipeline, as I mentioned in the past and we have cost protections. In terms of contracting, again, our operating partner is managing the overall construction inspection. So I think that project is obviously an important aspect to EQT to get to the Southeast markets. And so I think overall, I don't want to get into all of the details with the contracts, but I would just step back and tell you that I think that at the end of the day that's a very valuable asset and important in EQT's overall commercial strategy. So I would expect that to continue.

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

Okay, I guess maybe just to follow up there on MVP or do you have -- does AltaGas have any additional protection, similar to what you have on the cost side over and above the contract termination penalty? Or is it just limited to that?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

No, it's just that, Robert.

Operator

Your next question comes from the line of Ben Pham, BMO Capital Markets.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

I wanted to go back to RIPET in some of the financial disclosure you have on EBITDA at $13 million in 5 weeks or so. I mean is that a number we could think about from an annual perspective because you run the math on that just quickly, and it looks like it's pretty attractive return on RIPET.

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

Sure. I mean, look, yes, I think that as we move forward we'll continue to prove out the RIPET advantage. Last time as I told you that we needed to see the business improve the value-added aspect of RIPET and the option to diversify the producer portfolios, capture the FEI spreads, and we clearly demonstrated this quarter. So -- but overall, our strategy is to really to provide our customers, our producers these opportunities and we expect to continue to build out additional infrastructure in Northeast B.C. So yes, I think you could, the spreads are strong. I think that you'll continue to look at, as I said, we've hedged the majority of that for this year, but over time, we're going to transition to more of a tolling in annuity-based model as we bring the value to producers and as we increased volumes that will continue to help in addition to that. So, yes, right now the spreads are strong, we see them continuing, but our strategy hasn't wavered, as I said in my prepared remarks.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

Okay. So it sounds like, I mean, you look at the build multiples for 5, 4x right now. But then you start to look more run rate basis, you're starting to normalize that into still attractive return, but maybe not as much as this year?

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

Yes, I think that, look, as we continue to move more and more toward tolling, clearly that will provide additional annuity revenues and to the extent that we're not using the merchant business as we are today, as I said seeing in the business. What we're going to do is continue to pick up more incremental volumes on filling up our fractionators our processing. So overall, the combined overall returns should continue to grow as well as the revenues.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

Okay, that's great. And I mean the slide on your capital and funding, and you took out the prefs as part of that. Is that really maybe your greater confidence in that $2 billion asset sales that you can take out the prefs are you saying that if you deliver to the low end. I mean, you still get to your debt targets?

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

Yes, I'll let James get on to the specifics of the prefs, but I will just comment on the asset sales in general and really I think at the end of the day, we're in an enviable position as we -- we've already completed the $1.3 billion toward that goal. And we've got significant asset sale liquidity going forward. Talked about our 2 non-operating pipes remaining high value power assets and really an ever-increasing value ACI valuation and liquidity position. So we have all the liquidity that we need to meet or exceed that plan and that will impact the financing ultimately. And James, would you comment?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

I think, just to add to Randy's comments, it really comes down to the fact that we've got numerous processes on the go, with some very robust interest and to the extent that we can get to the higher end of that range, we felt that we could be a little more opportunistic on the timing of when and if we access the hybrid and pref market.

Operator

Your next question comes from Linda Ezergailis, TD Securities.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

I'm wondering if you could help us understand or confirm that any sort of change in ownership of the Ridley Terminal lands, the sale by the Canadian government shouldn't affect RIPET's operations, any sort of lease renewals or expansion optionality?

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

Right. No. Linda. Hi, good morning. No. But we're looking forward to working with the new ownership to really unlock the full potential of RIPET. We're moving from Crown Corp. to a private firm. I think that's a good thing, it has the potential for continuing to streamline operations and potential additional capital investment at the site. So we think that's good. We have a long-term 25-year lease with the ability to renew. So I think 20, excuse me, 20 years. So we're -- we feel good about it.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

And then maybe we can move on to your U.S. operations Blythe. Is there any update on your storage enhancement or other optimization initiatives or any sort of PPA opportunities that might be considered?

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

I'm sorry, Linda, was that with respect to Blythe that you'd said?

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Correct.

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

Yes. No, we -- I've said on the call. No additional update at this point, but we are optimistic that we think that is a very critical asset in the FCE stack. And so we'll -- we're continuing to have discussions about extension and renewal of that contract. So no further update on that. But again, I think those are high value power assets. Our strategy hasn't changed in terms of them being non-core, but again, I think that to the extent, that as we work toward those negotiations, we'll continue to evaluate the ultimate asset sale regarding power.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Okay. But the nature and the tone of those conversations hasn't changed, it's continuing?

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

No, they are positive, those are excellent assets, both those and the battery storage.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Okay, that's helpful. And maybe just to help give us some context on your initiatives in your Utilities business. You mentioned that 2020, you will see some improvement in earned returns. When do you expect to hit kind of the full run rate of your potential there in terms of utility returns, will you hit that next year? Or do you think it might take till 2021? Or can you comment on that?

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

Yes, Linda, we're making good progress. The team is, again as I said in my prepared comments, is updating the rates. We've got almost $100 million of rate case request that are out. And so clearly if we achieve those levels of request, we'd be there, but to the extent that as we work through those processes, we'll continue to -- we will improve in 2020, we'll continue to improve our customer experience and invest in the business. So as we work through 2020, '21, we should be able to get at a minimum our allowed returns as we move through 2020 and beyond. But we'll continue to always -- as we always do continue to improve the business and work on behalf of our customers. So it's an ongoing process in the years ahead. But the updating of rates is the first critical step, Linda.

Operator

Your next question comes from the line of Julien Dumoulin-Smith, Bank of America.

Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

So if I could go back to some of the commentary about asset sales. I appreciate that certainly is robust interest out there and there has been pretty good multiples thus far. How do you think about the need to -- as you say, perhaps take the hybrids off the table versus just redefining what eligible assets are here? i.e, if the assets -- could we see the asset sales sort of evolve over time into a broader scope of what this company should be given the diversity of the assets in play? Or are we thinking narrowly about raising the $2 billion target perhaps to $2.5 billion just to take some of the incremental financings or refinancings off the table?

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

Well, look, I think that what I said is that we're in an enviable position. I've laid out a strategy from December, Julien, that is going to transform -- is transforming our company to a low risk, higher growth Midstream and Utilities company. And so -- and I defined the assets that were non-core going forward to position ourselves to improve our liquidity and our balance sheet. So we're well on our way and so we will take a more strategic approach about where we're headed. In terms of the asset sales, again, we look at the value and illuminating the intrinsic value of these assets. So we'll definitely be within or above those targets, but we'll be opportunistic as we go beyond that and we'll evaluate it as we move forward.

Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

Got it. All right. If I can elaborate just a little bit further on some of the last few question. Earned returns, I know you just addressed this, but do you see a pathway to earning at your authorized levels? And then just to be clear by what year run rate? I know you talked -- you just elaborate a little bit here, but just to get a little bit more.

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

Look, we're -- you file your rate cases and if the jurisdictions give us the appropriate relief, we're right at our allowed returns going into next year. And so that's our objective. But clearly, Julien, that's our value driver, right? Our job is to earn our allowed return and that's what the commissions provides us that opportunity. So again, as we've moved through the cases, we can update that, but you should expect us to be putting forward and running our businesses that at a minimum earn our allowed return. We'll work diligently through these cases to get there in 2020, but we'll see how these cases turn out.

Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

Excellent, if you can elaborate a little bit more about the asset sales, the ACI stake lock up expires here in the next few months, also Blythe we've seen a real turnaround in that market. I'm just sort of curious, how are you thinking about just waiting that out to see with the full potential of locking at a new RA arrangement there versus monetization, and then also ACI?

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

Yes. Well, as I said with Blythe, I think it's again that and the battery storages are very high value excellent assets. And to the extent that we receive offers of fair value then we'll move forward, if we don't, we won't. With respect to ACI, again, it's the market has certainly appreciated the value of that asset and we'll continue to look forward to monetizing that non-core asset. But again, I just reiterate that, we are in an enviable position where we're well -- very confident of meeting our goal, but we have illuminated the intrinsic value of these assets and we will not monetize an asset that we don't receive our fair value for and we have that luxury.

Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

Got it. All right, excellent. Just last, quickly, just as you think about the 20 drivers, the Canadian midstream exposures and some of the volume commentary out there, do you think that largely you think that, that business segment can be stable year-over-year at its core ex some of the growth projects?

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

Yes, definitely. Yes, it will be stay, I was going to say, you've said ex the growth, that's a growing business, that is that we're very excited about that business. But yes, but absolutely, we are building a business of long-term sustainable value in growing cash flows and absolutely we are working diligently to do that and believe that the RIPET competitive advantages positions us well for profitable growth going forward.

Operator

Your next question comes from Patrick Kenny, National Bank Financial.

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

Maybe just to follow up on the last question with regards to your Northeast B.C. strategy. Just wondering, how are you thinking about mitigating exposure to some of these smaller customers such as Painted Pony, obviously another tough summer for AECO, but say prices don't improve much going forward, now with Pony's volumes dropping below their take-or-pay commitments at Townsend and I believe a reduced CapEx budget, as well last night. A, are you able to or are you open to restructuring those take-or-pay agreements going forward just in order to support production growth? And B, maybe how you're thinking about potentially having to backfill your propane supply for RIPET if certain producers do fall short of their take-or-pay capacity?

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

Yes. Well look, I think it's always prudent when you run a business such as this that we continue to diversify our customer mix. And we believe in this space and we believe in our RIPET advantage and how it will increase netbacks to our producer community. But, frankly we continue to diversify the mix of customers. Condensate pricing and demand remains strong. And like I said, our value-added RIPET approach will improve the value to our producer. So I think that we're doing our part to connect producers to value added markets and we're always willing to work with our customers to try -- again, to increase their profitability in the development of their resource. So we work closely with all of our customers, but we're confident going forward that we'll continue to diversify and add additional customers on a going forward basis.

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

Okay, great. I appreciate those comments. And then Slide 17, I guess for James, the improving that EBITDA ratio by year-end towards 5.5x. I'm wondering as we look into 2020 and beyond, what your longer-term target debt to EBITDA ratio might be for the company and perhaps your target FFO to debt ratio while you're at it?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

Yes, obviously, the year-end target is progressing in the right direction to get us to a net debt-to-EBITDA of 5.5x. If you look at our medium term to longer-term goals, we'd like to be under 5 and Randy touched on some of the ways that we can get there. I mean, we have identified a set of assets as non-core that could take us beyond the $2 billion in asset monetization which would we would then use to reduce debt further, but the philosophy here is clearly to get a balance sheet that is solid investment grade and we feel that targeting a net debt-to-EBITDA ratio under 5 in the medium to long term is what we want to accomplish.

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

And just to confirm, James, the under 5x target. Do you consider 50% of your $1.3 billion of preferred shares outstanding is debt within those targets metrics?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

Sorry, the way the slide has been set up, is that the prefs are being treated entirely as equity in those metrics. And I think the other part of your question was around FFO to debt and for obviously, we've been talking to the rating agencies. We know that we need to get to a sustainable 10x S&P FFO to debt to be able to get off negative watch and then obviously, we want to continue to take that off the balance sheet to be able to move that ratio higher.

Operator

Your next question comes from David Galison, Canaccord Genuity.

David Galison - Canaccord Genuity Corp., Research Division - VP of Research of Pipelines, Power and Utilities

So just on the 2020 initial I guess guidance, does that -- I know it's early days, but does that include just the $1.3 billion of asset sales that you've identified? Or does it include the targeted range that you've put out there?

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

Yes, it's our target range.

David Galison - Canaccord Genuity Corp., Research Division - VP of Research of Pipelines, Power and Utilities

Okay. So you would definitely be able to -- can you give an idea of what the EBITDA removed for 2020 that you're assuming from that?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

Well we have announced two asset sales with EBITDA multiples that you can back into that EBITDA that would be lost from the Stonewall and DG business and that's about $100 million. The balance of what we would basically forgo in 2020 will really depend on the assets we end up selling to get us to the higher end of that range. So as we sell those assets, we can definitely become clear in terms of the lost EBITDA. But right now, the two that we actually announced Stonewall and DG and the multiples that we talked about, you can back into about $100 million of annualized EBITDA.

David Galison - Canaccord Genuity Corp., Research Division - VP of Research of Pipelines, Power and Utilities

Okay. And then if you were to exceed that range of the $2 billion, do you anticipate based on what you're sort of seeing from a demand standpoint, would you -- in the assets that you're seeing demand for, would you be still be comfortable with that guidance range of $1.2 billion, $1.3 billion at a minimum?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

So, David, I think at that point. I'd go back to my earlier comment; it really depends on which assets we end up selling to get us above the range and what the EBITDA of those assets is going to be. So we can update people as we announced some of these transactions and get a clear picture of what that foregone EBITDA for 2020 will end up being.

Operator

(Operator Instructions) This last question comes from Robert Catellier, CIBC Capital Markets.

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

Just a couple of quick follow-ups here. Just on RIPET, with the profitability seem to be generating out of the gate here, is there any ability or desire to hedge perhaps more of that commodity price exposure more or that $5 RIPET advantage or is that difficult and not likely because you're trying to convert some of those volumes into tolling volumes?

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

Right. No, I think what we do, we have to consider that, obviously, as we transition more into tolling, but we also have to look at the fact that as we work toward exceeding and going above our 40,000 barrels we'll -- we'll continue to have an active hedging program, but we have to take all those variables into account. And I think we'll be -- we're in excellent shape to do that, but those are factors that we have to take in as we go forward.

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

Okay. And just I guess one clarification on the updated funding slides and specifically, removing the hybrids and everything else. Look, your Slide 16 -- your Slide 17, I should say still shows $3 billion of debt repayment in 2019. I'm wondering how you get there, if there is $660 million loss of hybrids in the funding equation?

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

Well, we've already paid $2 billion at June 30th, and obviously, we're assuming that we would get to the high end of our range with respect to our proceeds. We're at $1.3 billion now, inclusive of the DG sale. To get to the high end of our range, we would generate another $700 million, plus our funds from operations. So that's -- I mean that's the math that we do to be able to get to the $3 billion of net repayments.

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

Well, that's what I figured, you are going to make up with the hybrids with additional asset sales, that's pretty much it and a little bit more maybe on the funds from operations.

D. James Harbilas - AltaGas Ltd. - Executive VP & CFO

That's right. Yes, it's the assumption that we get to the high end of the range. And obviously, we generate, we get to the midpoint of our FFO range, which we've guided to be $850 million to $950 million. So the midpoint is about $900 million.

Operator

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

Adam McKnight - AltaGas Ltd. - Director of IR

Thanks, Candy, and thanks everyone for joining our call today, and thank you for your interest in AltaGas. As a reminder, the Investor Relations team here at AltaGas will be available after the call for any follow-up questions that you might have. That concludes our call this morning. I hope you enjoy the rest of your day. And you may now disconnect your phone lines.
