AltaGas Ltd.

First Quarter 2021 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, thank you for standing by. Welcome to the AltaGas First Quarter 2021 Financial Results Conference Call. My name is Valerie, and I will be the Operator for today's call.

All lines have been placed on mute to prevent any background noise. If you have any difficulties hearing the conference, please press *, then 0 for Operator assistance or at any time.

After the speakers' remarks there will be a question-and-answer session.

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, Investor Relations. Please go ahead, Mr. McKnight.

Adam McKnight — Director, Investor Relations, AltaGas Ltd.

Thanks, Valerie, and good morning, everyone. Thank you for joining us today for AltaGas's first quarter 2021 financial results conference call.

Speaking on the call this morning will be Randy Crawford, President and Chief Executive Officer, and James Harbilas, Executive Vice President and Chief Financial Officer. Also joining us here this morning is Randy Toone, Executive Vice President and President of our Midstream business; Blue Jenkins, Executive Vice President and President of our Utilities business; and Jon Morrison, Senior Vice President, Investor Relations and Corporate Development.

In addition to the first quarter press release, financial statements, and MD&A that were released earlier today, we've also published a first quarter earnings summary presentation. This presentation walks through the quarter and highlights some of the key variances and nonrecurring items that we would assume will be helpful for the market to understand, and it is available on our website under Events and Presentations.

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

We'll proceed on the basis that everyone has taken the opportunity to review the press release and our first quarter results. As for the structure of the call, we'll start with Randy Crawford providing some comments on our first quarter financial performance, recent progress on our strategic priorities, and what you can expect on the road ahead for AltaGas, followed by James Harbilas providing a more detailed walk-through of our financial results, near-term outlook, and 2021 guidance. And then we'll leave plenty of time at the end of the call for Q&A.

Before we begin, we'll also remind everyone that we will refer to forward-looking information on today's call. This information is subject to certain risks and uncertainties as outlined in the forward-looking information disclosure on Slide 2 of our investor presentation, which can be found on our website and more fully within our public disclosure filings on both the SEDAR and EDGAR systems.

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

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

Thank you, Adam, and good morning, everyone. As an organization, we have undergone significant changes over the past two years in terms of focus, process, and business optimization, and we believe the fruits of that labour were demonstrated in our operating results this quarter.

Despite the ongoing effects of COVID-19 and the headwinds associated with the US dollar exchange rate, we delivered a record quarter with strength across the platform and are well positioned to execute upon our durable 2021-and-beyond growth prospects.

Our Global Exports and Midstream platform achieved record throughput and profits. Our Utilities platform continued to profitably deploy capital, control costs, and improve returns, and our finance team continued to lower our debt costs, and we are well positioned to continue to reduce our leverage ratios over 2021.

As a result of these factors, we grew normalized EPS by 63 percent year over year in the quarter. Excluding the profits from the US transportation and storage business, run rate normalized EPS increased 35 percent year over year in alliance with AltaGas's focus on delivering durable and growing EPS and FFO per share that supports steady dividend growth and provides the opportunity for ongoing capital appreciation.

Our Utilities segment continues to demonstrate ongoing resiliency and improved financial performance, where we continue to prioritize the health and safety of our employees, customers, and stakeholders.

Excluding one-time items, our US Utility business delivered 11 percent year-over-year EBITDA growth in US-dollar terms. Through the combination of our judicious management of our costs, acute capital discipline, and profitable investments we are making to upgrade our infrastructure, we are driving both improved financial results and customer outcomes.

The performance seen in the quarter continues to align with the strong, long-term growth trajectory projections that we have shared with you in the past. Through the recently approved Maryland

and D.C. rate cases that came into effect March 26th and April 1st, we continue to improve upon our ability to earn our allowed returns on the invested capital.

The advancement of our network upgrade plans through the utilization of ARP programs continues across our jurisdictions. The investment of this incremental capital remains focused on reducing leaks, lower operating costs, and ensuring that we are well positioned to continue to deliver affordable, reliable, and lower-carbon natural gas to our 1.7 million customers while preserving the optionality of carbon-free solutions in the future.

Based on the progress we have made this quarter, I remain confident that we will close the remaining 150 basis points of ROE gap through 2021, which will allow our shareholders to realize appropriate rates of return on their invested capital across our utilities in 2022 and beyond.

We also realized robust performance across our recently expanded Midstream operations. Excluding the larger-than-expected profits from the U.S. Transportation and Storage business in the quarter, AltaGas Midstream platform continued to show strong growth, including a full quarter of consolidation of Petrogas, to deliver more than 85 percent year-over-year EBITDA growth.

The Midstream business is currently firing on all cylinders with solid volume growth realized across our integrated platform. We continue to see strong demand for Canadian LPGs in Asia, and activity and production volumes continue to increase around our Montney-focused platform in Northeast BC. We also are witnessing a strong rebound in production volumes in our non-Montney footprint.

It’s only been four months of combined operations since the acquisition and consolidation of Petrogas, but the strength and efficiency of the assets, combined with the increased scale and reach of the expanded platform and the bolstered expertise of the combined workforce, is exceeding our expectations.

Given the headwinds of building new fossil-fuel-related export assets in the US, we believe that our Ferndale facility is not only strategic, but extremely valuable. Ferndale's highly efficient operation and dual product optionality, located on the Western US coast, is difficult to replicate and creates a competitive advantage related to the delivery of cleanly burning LPGs to Asia.

We are realizing the benefits of operating both export facilities through greater optionality and flexibility in terms of supply and logistics and the allocation of propane and butane between the two terminals, as well as the benefits associated with integrating Petrogas's other transportation- and storage-related assets.

During the quarter, we exported a record average of 85,000 barrels a day of propane and butane to premium markets in Asia, improving Canadian realized pricing as we continue to connect more Canadian production to global markets. Both export terminals are performing very well and in line with our strong expectations. Overall, our expanded Midstream and energy platform provides us with great operational scale and commercial optionality, allowing us to provide better service and improved outcomes for our customers.

Last Friday, we took another step forward in advancing our strategy to refocus the Company on our two core businesses, while continuing to strengthen and delever the platform and reduce the volatility of cash flow through the monetization of our U.S. Transportation and Storage business. We were excited about closing this transaction as it accelerates our timeline of getting to our target of being 5x net debt to normalized EBITDA, and it brings us closer to contemplating the journey that we have been on in the past two years.

We're also fortunate in our timing to be able to sell the business after a strong financial contribution the first quarter, related to the weather-driven gas pricing volatility, to recognize an incremental source of funds that augment this deleveraging event.

We are now positioned to reduce our net debt to normalized EBITDA ratio by up to 0.5x over the course of 2021, relative to the approximate 5.6 run rate level we exited 2020. And we remain focused on further de-risking the platform over the long term.

We are proud of the fact that for two years running, we have delivered normalized EPS growth that has materially eclipsed all of our US gas, utility, and Canadian midstream peers. Our stock performance has followed suit and eclipsed all of our US utilities and Canadian midstream peers over this period.

The strong performance we achieved in the first quarter provided the confidence to increase guidance that now, when using the midpoint for 2021, represent 22 percent year-over-year earnings-per-share growth. The progress made during the first quarter positions AltaGas to drive strong stakeholder outcomes in the year ahead and continue to build a platform that is focused on long-term sustainability.

We believe this is a testament to the perseverance and steady progress that we have made towards executing our strategy and delivering on our priorities and is a true reflection of the significant potential that lies within our diversified platform.

As we continue to move towards a more decarbonized ecosystem, we believe natural gas to be a critical part as the transition fuel of the future. Our Utilities network is comprised of critical infrastructure that enables us to deliver low-carbon natural gas today and provides a foundation for the delivery of carbon-free solutions in the years ahead, including renewable natural gas and hydrogen.

We remain focused on executing upon our climate business plans and are confident that we will be very well positioned for the energy transition that is upon us. We are committed to exploring and to finding the next steps to introduce renewable natural gas and hydrogen into our natural gas distribution systems.

There will be more information to come in the quarters ahead as we explore and position ourselves to execute on this promising opportunity.

In summary, we've achieved record EBITDA growth, which allowed us to increase our earnings guidance for 2021; successfully integrated the Petrogas acquisition to achieve outstanding year-over-year growth in the Midstream business; made significant progress towards earning our allowed rate of return at the utility; and positioned ourselves to further reduce our debt and improve our leverage metrics.

And with that, I will turn the call over to James to dig into the operational and financial results of the quarter in more detail.

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

Thank you, Randy, and good morning, everyone. We are pleased to be here today to discuss our strong first quarter results, our increased 2021 guidance, and the monetization of our U.S. Transportation and Storage business that we announced last Friday, the latter of which should drive an estimated $485 million in near-term deleveraging and accelerate AltaGas towards our target of being below 5 times net debt to normalized EBITDA.

Specific to the first quarter, we were very pleased with the record financial performance that we produced, which builds on the financial and operational improvements we have demonstrated over the past two years as we reposition the platform and sharpen our focus on delivering durable and growing

EPS and FFO per share, which supports steady dividend growth and provides the opportunity for ongoing capital appreciation.

During the first quarter of 2021, this included normalized EPS of $1.29 compared to $0.79 in the first quarter of 2020, representing a 63 percent year-over-year increase; normalized FFO per share of $2.08 compared to $1.51 in the first quarter of 2020, representing a 38 percent year-over-year increase; and normalized EBITDA of $674 million compared to $499 million in the first quarter 2020, representing a 35 percent year-over-year increase. All of which was underpinned by solid performance across the entire platform.

As we highlighted in the earnings release, the U.S. Transportation and Storage business generated $80 million in normalized EBITDA over and above what we had originally forecast as we positioned the business to realize strong profitability from strong pricing moves in the US natural gas market, while meeting the demand arising from the February winter storm that gripped parts of the continent.

Overall, core performance in the quarter aligned with AltaGas's corporate focus of delivering durable and growing EPS and FFO per share that supports steady dividend growth and provides the opportunity for ongoing capital appreciation.

Specific to the business units, the Utilities segment reported normalized EBITDA of $371 million compared to $369 million in Q1 2020. Strong operating performance across the segment was largely offset by a $20 million unfavourable move in the US-to-Canadian-dollar exchange rate and $16 million in negative headwinds associated with the sale of AtlaGas Canada Inc. and the Virginia adjustment that were present in Q1 2020. Excluding these onetime headwinds, Utilities EBITDA was up 11 percent in US dollar terms.

Our growth continued to be underpinned by ongoing system upgrades that are focused on improving the safety and reliability of the network, reducing leak rates, and driving better environmental outcomes, all of which are focused on serving our customers.

During the first quarter, the Utilities segment experienced slightly colder weather across all our utilities, with the exception of Alaska, compared to the first quarter of 2020. I would also remind everyone that we have weather normalization mechanisms in place at Virginia and Maryland, our two largest operating jurisdictions, which protects our customers and AltaGas from large, weather-driven volatility in any given quarter.

WGL had a solid quarter with normalized EBITDA of $276 million compared to $278 million in Q1 2020. Excluding a $15 million negative impact of foreign exchange and the one-time impact of Virginia rate case adjustment of $8 million in the first quarter of 2020, WGL's run rate normalized EBITDA increased approximately $21 million or 8 percent year over year.

Notable drivers include higher revenue from ongoing system improvements and ARP spending, lower operating expense, and continued customer growth, which were partially offset by ongoing impacts related to COVID-19. We continue to make solid progress towards earning our allowed returns at WGL through a combination of capital, regulatory, and cost discipline.

SEMCO and ENSTAR's combined normalized EBITDA was $82 million in the first quarter, down $4 million for the same period last year. Removing the negative impact of foreign exchange fluctuations, which totalled $5 million, SEMCO and ENSTAR's run rate normalized EBITDA increased by approximately $1 million as the colder weather in Michigan was largely offset by warmer weather in Alaska compared to the first quarter of 2020.

And finally, normalized EBITDA from Retail Energy Marketing business was $13 million in the quarter, an increase of $17 million year over year, driven by favourable gas margins and pricing and the absence of widespread shutdowns experienced by C&I customers as a result of COVID-19 that occurred last March.

Within our Midstream segment, we reported a record $304 million of normalized EBITDA in the first quarter of 2021 compared to $120 million in the first quarter of 2020, which represented a 153 percent year-over-year increase. This included robust profits from the U.S. Transportation and Storage business as well as strong performance across the Canadian Midstream operations.

If we adjust for the larger-than-expected performance from the U.S. Transportation and Storage business, Midstream run rate EBITDA was still up approximately 87 percent year over year, including a full quarter of consolidating Petrogas.

EBITDA from Global Exports increased to approximately $7 million during the first quarter of 2021, reflecting Petrogas consolidation and combined shipments at RIPET and Ferndale of approximately 85,000 barrels per day of LPGs to Asia across 14 VLGCs.

Our processing and fractionation business realized strong volume increases across the Midstream platform, with a 10 percent year-over-year increase in total inlet volumes due to increased producer activity as a result of the improving fundamentals and commodity prices.

As has been the case in the past few years, we continue to benefit from our industry-leading footprint in the Montney as producers continue to complete drilling programs and increase production at our recently expanded Townsend and North Pine facilities, a trend we expect to continue in the coming period.

We remain focused on managing risks in the Midstream business and reducing commodity price exposure and volatility. We had approximately 95 percent of our frack-exposed volumes hedged at $26 a barrel and realized an average frack spread of approximately $15 a barrel after transportation costs.

Approximately 60 percent of Global Exports projected volumes are collectively hedged, including our long-term tolling agreements. The balance of volumes are de-risked through FEI to North American financial hedges that average approximately US$11 per barrel for propane and butane.

Depreciation and amortization expense for the first quarter of 2021 was $99 million compared to $105 million for the same quarter in 2020. The decrease was primarily due to lower US Midstream amortization and lower foreign exchange rates, which were partially offset by new assets placed into service and the amortization on the consolidated Petrogas assets.

Interest expense was $70 million was in line with last year. Overall higher debt balances and lower capitalized interest was offset by lower average interest rates.

Turning now to our 2021 guidance and capital plan, we have increased our 2021 financial guidance ranges to reflect our robust start to the year and the confluence of tailwinds and headwinds that have unfolded since our initial guidance back in December of 2020. This includes increasing our 2021 normalized EPS guidance range to $1.65 to $1.80 per share from $1.45 to $1.55 previously. This represents 22 percent year-over-year growth using the new midpoint.

We also increased our 2021 normalized EBITDA guidance range to $1.475 billion to $1.525 billion from $1.4 billion to $1.5 billion previously. This represents 15 percent year-over-year growth in normalized EBITDA using the new midpoint.

Our 2021 CapEx outlook remains unchanged at approximately $910 million. The majority of that capital budget is being allocated to the Utilities segment, which is focused on system upgrades to drive better customer outcomes.

We were also pleased to announce the sale and closing of a transaction to monetize the U.S. Transportation and Storage business last Friday for total proceeds of $344 million. This non-core asset sale represents another important step in advancing AltaGas's strategy of refocusing the Company on its two core businesses while continuing to reduce leverage and reduce the volatility of cash flows. This is a continuation of what has been a multi-year journey as we reposition AltaGas, and we are pleased to be nearing our goal of getting to 5 times net debt to normalized EBITDA.

This concludes our prepared remarks, and we would be happy to turn it over to Q&A. Operator?

Q&A

Operator

Thank you. Ladies and gentlemen, we will now conduct the analyst question-and-answer session. If you'd like to ask a question, press *, then 1 on your telephone keypad. If you would like to withdraw your question, press the # key. There will be a brief pause while we compile the Q&A roster.

And your first question will come from the line of Patrick Kenny of National Bank.

Patrick Kenny — National Bank

Yeah. Good morning. Just on the propane export business, looks like the tolling arrangements are still at just 15 percent of the 90,000 combined capacity. I thought it was closer to 20 percent previously. But I just wanted to confirm that there have been no incremental long-term commitments made after the April 1st NGL supply recontracting season. And I guess if not, maybe an update on how your discussions are progressing with some of your larger gas processing customers that might be interested in locking in their export capacity on a long-term basis.

Randy Crawford

Yeah. Hey. Good morning, Patrick. Thank you for the question. First of all, you're right. We're currently at 35 percent tolled at RIPET, and we are targeting higher percentages post April. Conversations have been constructive, and we speak with them regularly to secure additional tolling volumes.

I think, just to give you more background on a longer term, you'd look at this, and you said our capabilities and efficiencies that we've created of having these two west coast export facilities have really put us in a position that producers certainly can't ignore the value proposition that we're proving to them. And the recent strengthening and the fundamentals and improving commodity prices is really starting the conversation. And we're seeing increased interest by producers and aggregators who want to participate in the upside.

And, quite frankly, some of the consolidation that's occurred as well with larger balance sheets and customers able to make longer-term commitments, it makes us optimistic that we'll continue to strengthen our position there. But thank you, Patrick.

Patrick Kenny

No. That's great, Randy. And I know it's still early days in the nearby Watson Island terminal being online, but any comment on having to compete for volumes or contracts? Or are you servicing completely different markets and we should not expect any near-term pressure on volumes or margins at RIPET or Ferndale?

Randy Crawford

Yeah. We don't see that the start-up of Watson Island is going to have any significant impact on our business. We believe that the Canadian propane market is going to continue to be oversupplied, and the Montney continues to see strong drilling activity. It remains a top play in North America.

Overall, though, when you think about our assets, intrinsically, the assets are great. They give us a return on the investment that's outstanding. And the intrinsic value, the dislocation of values, the propane, the ability to export propane and butane, what that does is it provides us an incredible value that no one, including Watson, can replicate.

And so we're not a one-trick pony. We've acquired these assets, and we can move far more propane than prior to the acquisition. And we also have the ability, as we've said, when prices line up differently between the two products, to ship more butane than propane or vice versa.

So our position in the industry is leading. The two facilities with the optionality to access the Asian markets, and when we look out there, we don't see others that have that ability. So overall, Watson Island, smaller boats, different markets, and it'll essentially have some commercial challenges.

Patrick Kenny

Okay. That's great. Thanks for confirming that. And then just for James, maybe. Just with the improved visibility here towards reaching your sub-5 times leverage target, any update on your discussions with S&P regarding moving to a BBB mid rating? Or is that still dependent on executing a sale of MVP?

James Harbilas

Hey, Patrick. No, it's a good question. I mean, at the end of the day, it would be fair to say that the sale of the U.S. Transportation and Storage business is moving us a little faster than we'd originally anticipated towards that 5 times net-debt-to-EBITDA goal.

We've just come through a ratings update and a confirmation process with S&P late in 2020 and other rating agencies, and so far we're exceeding some of the forecast that we've put in front of them. So I think that this is something we will discuss with them as we enter the ratings review cycle later this year. But if you look at the report, it would be a couple of years of us hitting FFO-to-debt targets that are in the 14 percent-to-15 percent range that would trigger an upgrade.

Patrick Kenny

Okay. That's perfect. Thanks, guys. I'll leave it there.

Operator

And the next question will come from the line of Ben Pham of BMO.

Ben Pham — BMO

Hi. Thanks. Good morning. I had a couple questions on the U.S. Storage sale, and I'm curious, you mentioned acceleration of debt reduction. I was just curious about what you meant by that. Is it six months? One month? And any sense of when you think you can get to the 5 times target? Is it next year? Or is it the year afterwards? Or something more medium term?

Randy Crawford

James, you want to take that?

James Harbilas

Yeah. Sure. So I mean when we released the press release on the US Midstream sale, we've clearly identified that if you look at our run rate EBITDA at the end of 2020 and add a full year of contribution from Petrogas, we would've been at about 5.6 times net debt to EBITDA. This sale will take about 0.5 turns of leverage off of that. So we're starting to get close to that 5 times net debt to EBITDA.

Looking out into 2022, obviously, if you layer in some growth that we've forecasted being contributed by rate-based investments, and then we will move closer to that 5 times.

For us to get below it, we obviously have additional dry powder at our disposal and levers to pull with some additional noncore assets that we haven't moved on at this point. We continue to identity MVP as a noncore asset, but we're going to continue to be patient with that asset so that we fully derisk it and increase the value and move forward with the process at that point, which should take us below 5 times net debt to EBITDA.

Ben Pham

All right. That's great. And also, it's an interesting transaction because you're doing it at a time where volatility is increasing, and, on a trailing basis, it looks like you've got a good multiple. On a forward basis, maybe not so much. Like do you characterize this transaction as more accretive to your balance sheet versus accretion to EPS or your unlevered EBITDA?

Randy Crawford

Well, I think when you think about this transaction and the asset itself, right, it's pretty much of a noncore asset. And the business is really—if you think about the business and the contractual business of storage and transmission, it really has the—what you do in that business is it has the intrinsic value that you hope to cover your cost. And then you set yourself up with the opportunity with intrinsic value that may happen one out of five or, we believe, ten years.

And so for us, very much of a noncore asset. Very small impact overall to earnings, and it presented us with an opportunity to delever significantly. And we made a strategic and important decision to hold those assets through the end of the quarter for that opportunity, and I think the team did an excellent job.

Ben Pham

Okay.

James Harbilas

And I wouldn't mind just adding—sorry. I just wanted to add from an earnings standpoint, it's actually going to be somewhat—it's going to be neutral from an EPS standpoint. Just if you look at the contribution it's had on average over the last five years of about $16 million, and you basically take interest expense out from proceeds that we're going to use to repay debt and the depreciation and amortization that we'll avoid because of the derecognition of that asset on sale, then it would be neutral to earnings going forward.

Ben Pham

Okay. That makes sense. So you're ignoring this windfall this year, which makes a lot of sense, and using that historical average. Okay. And then maybe another thing is MVP. Any change with—I just haven't had time to go through everything—any change in some of the accounting like AFUDC and anything going on there? Because I just saw some notes on AFUDC.

Randy Crawford

Well, I'll let James talk about the AFUDC, but more broadly speaking, right, I think we believe and we continue to be confident that the pipeline will get built and that it's a very critical asset for reliability in the US in terms of the buildout of the electric grid as well, so.

But specifically, the AFUDC, do you want to address that, James?

James Harbilas

Yeah. And we did record AFUDC through 2020 on the construction of that project ourselves, and the consortium partners on MVP all ceased recognition of AFUDC as it moves its way through the remaining milestones that it needs to achieve to get to in-service state. So 2021 will not have any AFUDC in our EBITDA or EPS numbers.

Ben Pham

Okay. Perfect. Okay. Thank you.

Operator

And the next question will come from the line of Robert Catellier of CIBC Capital Markets.

Robert Catellier — CIBC Capital Markets

Yes. Thank you, and good morning. Congratulations on the sale of the US transfer business. But just a follow-up there, how do you look at how that impacts future asset sales? For example, just picking one at random, Blythe. Is it easier to just sell it and clean up the story? Or do you now have the financial flexibility to hold out for top dollar? And on a similar vein, we're seeing some very strong valuation on utility sales in the market. So is there any incentives to maybe look at noncore utilities as deleveraging candidates?

Randy Crawford

So thank you, Robert. Thanks for the question. On the last half, sure, we're always looking at opportunities to look at our portfolio and to the extent that we can't leverage and grow those assets, we would look at that. But more broadly, more broadly, the deleveraging that we have done has been, I think, significant, and it's put us in a position where we can use our dry powder on some of these other noncore assets.

So that's where we'll be. Certainly, as we did with our noncore transportation and storage assets, we'll be opportunistic. But we are in, I think, an excellent position to fund our growth plans and to continue to create shareholder value.

So it hasn't really changed. It's just put us in even a better position going forward.

Robert Catellier

Right. Okay. And so I wonder if you could comment about the outcome of the recent Maryland case how you characterize that income. And it looks like it was quite a bit short of the allocation. And so at the same time, you're still holding to your view of being able to achieve authorized returns. Could you just clear that up for us, please?

Randy Crawford

Yeah. Sure. I mean, the order was—it was ultimately a settlement on our behalf in terms of the return on equity and the capital structure were consistent to what we had previously been earning on. And so when we look at our business going forward, our strong rate-based growth and earning on our allowed return, we're looking at our overall operational excellence model. And Blue and his team had done a tremendous job in terms of capital discipline, judicious cost management, and improving the customer value proposition. So yeah, we're very bullish. And we continue to remain on target to earn our allowed return.

Robert Catellier

Okay. Last question for me. I know it's quite early, but has the change in the carbon tax or the expectation of a CCUS tax credit opened up any opportunities for AltaGas?

Randy Crawford

We know it's early, right? And there's a lot to unpack in a variety of these, Biden's proposals around infrastructure and area. But really, I think, overall in some of this, we'll be looking at really benefitting in the utility and our existing kind of relationships the infrastructure that connects our 1.7 million customers.

So as we look forward on projects such as hydrogen that appears to have some options that can leverage our asset and customer base and provide significant environmental benefits, we'll be looking at those opportunities. And in particular, and it's early, there's hydrogen production tax credits in some of the other proposals. So we'll be looking at that.

But again, it's really early. That's going to be, I think, months down the road.

Robert Catellier

Yeah. Okay. Thank you.

Operator

And the next question will come from the line of Andrew Kuske of Credit Suisse.

Andrew Kuske — Credit Suisse

Thank you. Good morning. Maybe the first question just starts with Randy and it really revolves around your hedging program, and we appreciate the detail that you have on a quarterly basis. But if you could maybe just talk about just the philosophy of the hedging program on the Midstream side of your business and how you're approaching this, what's changed in the current market environmental? Or what's remained the same?

Randy Crawford

Yeah. Hey, Andrew, thank you. Nice to talk to you. As James mentioned, we have approximately 60 percent of the volumes locked in this year. Really when we look at it, we're managing in terms of our cash flow and earnings, but we leave a certain amount of those positions open because it provides us the flexibility for opportunistic pricing and supply movement.

So we tend to go into the year with a target around those levels, and then we charge the commercial team to optimize that going forward. And then we'll be continuing to look forward into 2022.

And in addition to that, we calculate our forecast on alternate tolling volumes as well and incorporate that into our hedging strategy.

So that hasn't changed, and we continue to be focused on increasing the tolling percentages as well.

Andrew Kuske

Okay. Appreciate that commentary. And then maybe just looking through like the top of the house lens and, obviously, dollar Canada's moved a lot. How do you think about just the FX hedging approach or lack thereof from a philosophical standpoint for the organization?

Randy Crawford

Well, James has done a great job. And I'm going to let him address it. I'll address it at high level. We have two aspects that go here, right? We have our US-denominated debt, so as that changes as opposed to some of the cash flows and EBITDA that come back, so there's an inherent hedge there.

But, James, I'll let you address it more specifically.

James Harbilas

Yeah. Andrew, we've said in the past that we don't undertake translational hedging. So we do look at transactional hedging to try to lock in margins on some of our exports, but on the translational side we don't. And even though there is a reduction to EBITDA, I mean, when you drop down to ratios like EPS and our debt metrics, just given the fact that we've got US dollar-denominated debt and US dollar EBITDA, there's no real material impact to our earnings per share debt ratios as a result.

Andrew Kuske

I appreciate that. And then one final one, if I may. And I know it's still early days, but do you foresee any impacts just from the commentary that came out of the Canadian budget in relation to interest deductibility?

James Harbilas

Yeah. I mean, we've looked at this on a preliminary—we don't anticipate any issues with the debt that we've got at ALA and the profits that we're generating within our Canadian business units. I don't think we're going to be captured by those rules at this point. And we continue to reduce leverage, so I think we're in good shape there.

Andrew Kuske

That's good. Thank you very much.

James Harbilas

Thank you.

Operator

And the next question will come from the line of Linda Ezergailis from TD Securities.

Linda Ezergailis — TD Securities

Thank you. Some of my questions have already been answered, but I'm wondering maybe you can just give us a bit more context around hitting your run rate of operational efficiencies and synergies with Petrogas and Ferndale. How would you characterize in terms of the extent to which you think you've realized what's possible versus how much more there is in the first quarter versus how you might continue to ramp that up? And when you might hit your full run rate of efficiencies and synergies?

Randy Crawford

Good morning, Linda. Thank you for the question. Look, we're in the early days of the integration, so I think that we are just beginning to scratch the surface of what we can do as we align these two businesses going forward.

I told you broadly, it gives us the ability to load more ships. We've got far more tools in our toolbox in our logistics and optimization. And so, again, I think that we'll be working through this year to continue to optimize them. I think the two teams have come together very well.

So we'll continue to look at our railcars a lot of the logistics. I've said before, we're an energy export and logistics company, and the team continues to drive value. So yeah, early stages of what we're hoping that we can achieve, in my judgment.

Linda Ezergailis

Okay. And clearly, the outlook for the whole industry has improved in Western Canada. I'm wondering if you can give us a sense of how we might think of the volumes continuing to ramp up in your Midstream business. And what sort of incremental commercial agreements or commitments that you might realize from producers over the next nine months, I guess, as you continue in the year?

Randy Crawford

Well, clearly, we don't want to get into some of our specific negotiations, but I think the trend has been friendly. Mobility around the world is continuing to pick up and energy demand is following suit, and that's good for the upstream producers.

We're fortunate in the extent that the investments that we've made in our assets have available capacity, particularly at Townsend and/or North Pine, and so we continue to see ramp up there. Over the longer term, continue to provide what I believe to be the best market in Canada for LPGs, and you'll see us continuing to increase volumes there and make longer-term commitments with producers going forward.

So we're in a really good position as volumes continue. Now producers have said they're going to be disciplined, but we'll continue to improve our efficiencies and cost structures, and I expect that we'll continue to have volume growth trends ramping up over the next year.

Linda Ezergailis

Thank you. And just a final follow-up. In the past, AltaGas has expressed a willingness to consider petrochemical investment opportunities in Western Canada. With your expanded NGL capabilities and optionality, would you consider any sort of petrochemical investments, whether it's a partial interest in a joint venture or other initiatives?

Randy Crawford

So, Linda, we think—look, I mean, I'll say this. We're primarily focused on our integration and optimization of our assets and that we continue to see opportunistically ability to deploy capital there organically. But as we look forward, similar to what we did with Petrogas, to continue to leverage our distinctive capability around our export capacities, we would really be looking more on organic growth. But overall, I think we're unique in providing both access to domestic markets, as well as our export volume.

So again, I don't see us at this point moving in that direction. But clearly, I think our focus and we believe to be the best market is in Asia.

Linda Ezergailis

Thank you. I'll jump back in the queue.

Operator

And our next question will come from the line of Julien Dumoulin-Smith of Bank of America.

Dariusz Lozny — Bank of America

Hi. Good morning. It's Dariusz Lozny on for Julien here. Just wanted to briefly have you walk through some of the moving parts of your higher EBITDA guidance for '21. Obviously, it seems like it's higher due to the strong performance in the US Midstream segment that you discussed. But maybe talk through some of the other moving pieces if you could, such as potentially synergies from Petrogas, FX outlook, and I assume the range is narrower because you have a better sense of your hedging program. But if you could talk to some of those moving pieces, please, that'd be great.

Randy Crawford

Good question. I'm going to let James get into some of—I'll just make a broad comment that we feel that we could be again above the midpoint if the Cal-21 stays strong and that it moves beyond that. But there's a variety of give and takes in that, and I'll let James walk you through some of those particulars.

James?

James Harbilas

Yeah. So obviously, when we look back to where some of the factors were that we put into our guidance in December of 2020, some of the tailwinds that we're seeing right now that contributed to us moving up is obviously the contribution from the US Storage and Midstream business. But we've also seen stronger frac spreads and we've been able to lock in the majority of those. We're 95 percent hedged on frac spreads.

We've seen higher volumes at our extraction facilities as well than what we had factored in and, obviously, higher export volumes in our Global Export facilities. And Randy touched on it; stronger NGL pricing on C4s is something that we've factored into some of our upside as well.

And then on the headwind side, you touched on the one that's the most material; it's FX. If you look at a full year impact to FX, it's about $45 million just given where the FX rate is right now relative to where it was when we set that guidance.

So those are some of the factors, the puts and takes that went into us tightening the range and moving the midpoint up by $50 million.

Dariusz Lozny

Okay. Excellent. Thank you. One more, if I could. On the sale of the US Transport and Storage assets, can you maybe just talk about was that a segment or a business that you have been actively marketing? Or did you just realize that the time was right for a sale given the conditions during Q1?

Randy Crawford

We identified that as a non-core asset and we've been working toward that. As I said in the past that there's a—we've continued to look at a deleveraging. We made a business decision to hold the assets through the winter heating season because of the nature of these assets, and then we went forward to monetize it. So we've been—that's been in the works.

Dariusz Lozny

Okay. Thank you very much, and congratulations on a great quarter.

Randy Crawford

Thank you. Appreciate it.

Operator

And the next question will come from the line of Rob Hope of Scotiabank.

Rob Hope — Scotiabank

Yeah. Morning, everyone. Just two follow-up questions for me. First off on the guidance, I just want to get a sense was the cancellation of AFUDC on MVP also contemplated there? And then I guess when I take a look at kind of the moving parts there, the FX headwind will be offset below the EBITDA line and AFUDC is non-cash there as well. So fair to say that on a cash impact basis you're still quite ahead of plan?

Randy Crawford

Oh, yeah. Absolutely. You could say that. James, do you want to comment on that?

James Harbilas

No. I think—I don't have anything to add to that, Randy.

Randy Crawford

Yeah.

Rob Hope

All right. So there's no—so AFUDC was contemplated an event?

James Harbilas

Originally it was, yes. But obviously, as we got year-end reporting and some of the impairments that took place and the consortium partners decided not to recognize any more AFUDC, that became a headwind to EBITDA.

Rob Hope

Okay. And then just another follow-up to Andrew's question previously. So you commented on the interest deductibility. What about any cross-border structures? Any potential thought that you'd have to alter anything there? Or any potential impact from the federal government and the structures you use across the border?

James Harbilas

Sorry, I didn't follow your question, Robert. Can you repeat that?

Rob Hope

The federal budget also talked about the potential to change any cross-border structures on a tax basis. So I'm just wondering if you repatriating any of your US income into Canada could be impacted by any of the changes in—

James Harbilas

No.

Rob Hope

—in the budget? Okay.

James Harbilas

No. No. It wouldn't be impacted by it. Sorry, that's what I wanted to confirm. So the Canadian budget changes would not impact our ability to repatriate funds from the US.

Rob Hope

All right. Thank you. That's it.

Randy Crawford

Thanks, Rob.

Operator

And the next question will come from the line of Robert Kwan of RBC Capital Markets.

Robert Kwan — RBC Capital Markets

Great. Good morning.

Randy Crawford

Good morning, Robert.

Robert Kwan

I'd like to come back to asset monetizations. And while a key goal to date has been the benefit of deleveraging, coming back to your answer earlier around utilities, does today's LDC transaction cause you to think more about the benefit of selling to drive value between what you think you can sell an asset at versus what's embedded in your share price? Or is deleveraging still the main focus? And really, what would drive asset change?

Randy Crawford

Yeah. I think more on the deleveraging is how we're really focusing to continue to drive down those metrics and provide ourselves dry powder for opportunities going forward to fund the significant growth we see in both our Midstream business and our Utilities going forward.

My comment on the utility is that we want to continue and we will continue to invest and grow those assets, but as we look at what the right mix there is, we'll always be looking at every asset that we own to drive value for our shareholders.

Robert Kwan

Okay. Good. But I mean, is the difference between what you can sell it for versus the hold value is not really something that would cause you in and of itself to transact?

Randy Crawford

The way I look at these assets, Robert, is to the extent that we can add value, that we can continue to improve it, leverage the asset, and continue to grow earnings per share and that we bring a competitive advantage, that's what we'll do with these assets.

Now to the extent that we're not able to do that and they're non-core, then we will look towards monetizing them at fair value. But we're not in a position where we have to do any transactions as we were maybe two years ago.

Robert Kwan

Understood. If I can just finish with the growth that you're seeing in the Western Canadian Midstream business. Do you see more of that being driven by the optimization of your asset footprint with Petrogas? Or do you still see it being fairly capital intensive with respect to building new infrastructure under contracts for producers?

Randy Crawford

I think long term there'll be additional investments in assets on our integrated platforms and such. But right at this point, we are fortunate to have our network that provides producers access to very valuable markets. And I've learned in this business connecting producers to valuable markets and increasing their netback will attract more volumes to your platform. And that's what's happening here. And certainly we expect with low prices and prices increasing that there will be a reaction in terms of volumes. And that's what we're seeing, and that will only be more helpful to filling up our facilities.

Robert Kwan

And just over that long term, if you look at some of those more capital-intensive projects, what are the top two or three opportunities that you see to add to your facilities?

Randy Crawford

Well, look, I think if we look organically, first of all, we're looking at our logistics platform, right, and that we can aggregate rail and put together more efficiency around our cost structure and rail structure. Over the long term, expanding in the fractionation side of the business in our Northeast

Montney footprint and continuing to build out infrastructure there and doing it to the best extent possible in a modular way where the paybacks are faster and that there's not a lot of lag is a model that we would look for.

So to be able to take our assets, continuing to expand and leverage that footprint in a cost-effective and efficient manner is something that we would see capital into the future. And I think we'll see many opportunities over the long term.

Robert Kwan

Yeah. That's great. Thank you very much.

Operator

Before we move on to the last question, I would like to remind participants that if you have any further questions, simply press *, then the number 1 on your telephone.

And the last question will come from the line of Jeremy Tonet of J.P. Morgan.

Jeremy Tonet — J.P. Morgan

Randy, good morning. How are you?

Randy Crawford

Hey there, Jeremy. I'm doing well. Thank you.

Jeremy Tonet

Good. Good. Just a few questions for me, if I could, to round it out here. Just wondering, any thoughts you might be able to share with the Biden infrastructure bill? And there could be opportunities for infrastructure buildout, but I guess I'm more curious on the tax side. With taxes moving up, how do you think that could impact consumers? What could that do to bill headroom? Just wondering any thoughts you might have on taxes there?

Randy Crawford

Yeah. Great question, Jeremy, and thank you for it. I tell you, on the utilities side, and you know this business quite well, to the extent that the Biden tax bill ultimately comes along, and there'll be some time here, right, there's probably in terms of the utility net positive in terms of cash flows, right, and EPS neutral. Going forward in terms of—and so those costs would be passed on the consumer from that standpoint. And given that most of our operations in the US are utility-based, the impact would be small.

But clearly, in terms of Petrogas and the US other unregulated operations, there's some give and takes there. There's opportunities for other projects within the infrastructure bill that I alluded to that we're working on in terms of other opportunities with consortiums possibly, again, around renewable natural gas and hydrogen and some things as well in terms of carbon capture that we'll be looking at.

So there's some puts and takes throughout the bill, and I think we've got a long way to go to see exactly how that plays out.

Jeremy Tonet

Got it. Thanks for that. Just wondering separately, I guess, carbon capture has been kind of gaining a bit more attention with regard to the 45 Qs there, and even carbon tax in Canada is kind of, I think, raising the profile of CCS as well. Just wondering any thoughts you might have as far as this technology whether there could be some role for Alta to utilize this at some point in the future?

Randy Crawford

Yeah. It's a great question. And I think we're looking at that. We're looking at all aspects of this. And we've got a very good, strong, long history of being a leader in social purpose delivering strong environmental stewardship. So as we go through this long, and I believe it to be a long transition in the energy ecosystem, one of the things that's really, I think, helpful is what we're doing with RIPET and

Ferndale to deliver lower carbon-intensive fuels to Asia and displacing some of the higher-carbon footprints, and that's of real value in the long run.

In terms of the technologies and investments here, well, carbon capture's, I think, you look at where we are with Ferndale, the refineries, you need scale, right, you need scale and more parties that are necessary to increase scale. So once we have that, I think that that's long term; that's viable. And we'll look to participate where we can bring an advantage in terms of building pipes around hydrogen or long-term carbon capture.

So again, long-term transition, our company will focus on what we have core capabilities to do and where we'll participate in leveraging our skills going forward, Jeremy.

Appreciate the broad question, though. Thank you.

Jeremy Tonet

Got it. Just a last one, if I could. With regards to RNG, if you see any opportunities across your footprint there or just any thoughts in general?

Randy Crawford

Yeah. A few. Again, it's different in each one of our different jurisdictions. I think that we see a couple of things around our territory. I know Blue's on the call. Blue, did you want to add any comment on that respect?

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

Yeah. I think from a macro perspective, Randy, you're spot-on. So it varies across our jurisdictions. We, of course, when we think about RNG, we're looking much more broadly than perhaps just the traditional dairy farms or chicken farms based on where we operate. So we are active in dialogues and discussions, and you should expect to see some activity from us in that space as we move forward.

Jeremy Tonet

Got it. I'll leave it there. Thanks so much.

Randy Crawford

Thank you, Jeremy.

Operator

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

Adam McKnight

Thanks, Valerie. Thank you, everyone, once again for joining our call today and for your interest in AltaGas. As a reminder, we will be available after the call for any follow-up questions that you might have.

That concludes our call this morning. I hope you enjoy the rest of your day. And you may now disconnect your phone lines. Thank you.