Q2 2013 Earnings Call

Company Participants

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

Other Participants

- Carl Kirst, Analyst
- David Noseworthy, Analyst
- Linda Ezergailis, Analyst
- Steven Paget, Analyst
- Robert Kwan, Analyst
- Robert Catellier, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the AltaGas Limited Conference Call. I would now like to turn the meeting over to Mr. Jess Nieukerk, Director of Finance and Communications.

Please go ahead, Mr. Nieukerk.

Jess Nieukerk, Director Finance and Communications

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

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

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

David Cornhill, Chairman and Chief Executive Officer

Thank you, Jess. Good morning, everyone. I'm pleased to report, we are continuing to deliver strong growth. This morning, we reported 150% increase in normalized earnings per share. We achieved $0.30 per share compared to $0.12 per share in the second quarter of 2012. Our normalized EBITDA for the second quarter 2013, more than doubled to $106.2 million compared to $51.7 million in the same quarter 2012.

Normalized funds from operations for the second quarter 2013 were $83.1 million or $0.71 per share compared to $40.7 million or $0.45 per share in the second quarter of 2012. Our businesses are performing well and delivered over $200 million of normalized funds from operation in the first half of 2013. When we compare the trailing 12 months ending second quarter 2013 to the trailing 12 months ending second quarter 2012 for normalized income per share and FFO per share, we are seeing growth rates of over 30% for both.

Based on the corporate performance and a strong outlook, the Board decided to increase the dividend by $0.125 per share per month. With this dividend increase, we have increased dividends by 6.25% this year. In the second quarter, the Power and Utilities businesses performed extremely well. However, the Gas business faced some challenges. The Gas business successfully met those challenges and delivered a good quarter.

Two compressors on our Co-streaming section of the Harmattan plant had to be taken offline for major repairs. This resulted in a significant reduction in processing capacity. As a result of the reduced processing capacity, we reduced the capital fee charged to our customer. Our Gas team did an outstanding job and brought both compressors online before the end of June. We expect co-streaming section in Harmattan will reach full capacity in Q3.

In the second quarter, we saw low frac spreads with spot prices in the $18 range. Frac spreads have increased significantly over the last few weeks. The Gas group also faced increased operating costs, which were primarily a result of increased power prices. This increase was more than offset by the performance of our Power business. We expect the Gas business to have a much stronger second half.

On our Northwest hydro projects, we made significant progress, Forrest Kerr remains on track to be mechanically complete by the end of 2013, and online by mid-2014. McLymont and Volcano remain on track to be online mid-2015. All three projects remained ahead of schedule and on budget. David Harris will provide further comments on them.

We continue to see many organic growth opportunities in all our businesses. Combined with our energy export businesses, we are working hard to deliver on our next leg of growth. On the energy export initiatives, we continue to make excellent progress. We are having active discussions with markets as well as supplies for both our LPG and LNG projects.

I will now highlight some of the progress we are making. Our PNG expansion is moving forward. During the quarter, we began discussions with the First Nations on our pipeline corridor. We have submitted our projection description to the BC Environmental Assessment offices. We have received acknowledgement of the project from them and are now starting the environmental assessment process leading to application, valuation and approval stages.

We have also signed two Transportation Reservation Agreements for a combined capacity of 520 million cubic feet a day. Active discussions are underway with several parties on securing additional transportation capacity. This support allows us to move ahead with the expansions through to the final investment decision. We expect to make a final decision in 2014 pending regulatory approval and agreements with First Nations.

For our LNG export business, we currently are preparing preliminary engineering design and construction for the electrification facilities. This work is expected to be completed by the end of 2013. Our proposed LNG export business could potentially begin as early as 2017 subject to First Nations consultation, regulatory approvals, and permitting. We're also doing a feasibility study and preliminary engineering design and site scoping for our LPG exports business. Again, pending consultations with First Nations regulatory approval and permitting, this is on track to potentially begin as early as 2016. We're having active discussions in the supplier and off-take area, both for LNG and LPG and expect to be able to provide more information later this year.

We delivered strong earnings over the first half of 2013, and are well positioned to deliver on our goal of double-digit growth in earnings. We expect this to continue over the next few years with the projects and growth we already have in the pipeline. We remain committed to our strategy of increasing stable cash flows from long-lived assets. This supports both dividend growth and capital growth.

Before I pass the call on to Debbie, I would like to update you on our organizational change. I'm very pleased to announce that David Harris has been promoted to Chief Operating Officer. David will be responsible for the day-to-day operations of all our assets, as well as project execution across all of the businesses. David brings a wealth of experience, which will allow us to drive operational excellence across our asset fleet. His experience will also allow us to capture the tremendous opportunities, we have. The growth, we have seen over the past 24 months has been second to none. With this growth, we have opportunities to streamline our operation and increased efficiencies. With David's leadership, we know this will materialize.

I will now pass the call on to Debbie.

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

Thank you David and good morning, everyone.

This morning we reported normalized net income applicable to common shares for second quarter 2013 of $35.5 million or $0.30 per share compared to $10.4 million or $0.12 per share for the same quarter 2012.

On a GAAP basis, net income applicable to common shares for second quarter 2013 was $35.9 million or $0.31 per share compared to $25.8 million or $0.29 per share of second quarter 2012. For the six months ended June 30, 2013, normalized net income per share was $91.1 million or $0.82 per share compared to $50.6 million or $0.56 per share.

On a GAAP basis, net income applicable to common shares for the six months ended June 30, 2013 was $85 million or $0.76 per share compared to $67.1 million or $0.75 per share for the same period in 2012. Results were driven by strong performance from our three business segments, which together reported $73.3 million in operating income in the quarter compared to $38.7 million in the second quarter last year.

On a year-to-date basis, the three segments reported operating income of $188.6 million compared to $115.2 million for the first six months of last year. Operating results were driven primarily by higher throughput in the gas segment, higher power generated and higher power prices, the addition of the US utilities in August of last year, as well as colder weather and rate base growth in our Canadian utilities. Interest expense was $25.2 million and $49.8 million for the three and six months ended June 30, 2013, respectively. Higher than same periods last year as a result of higher debt balances as we added assets and partially offset by lower interest rates in 2013 compared to 2012.

In second quarter of 2013, we reported an income tax recovery of $2.9 million compared to an income tax expense of $8.7 million in same quarter last year. The recovery was due to two adjustments; $2.4 million recovery resulting from a statutory tax rate change related to dividend paid on preferred shares, and $8 million related to an adjustment to the deferred tax liability account.

For the three and six months ended June 30, our net invested capital, which is our book addition to capital was $667.7 million and $773.6 million, respectively. The majority of which was related to the acquisition of Blythe and the continued construction of the Northwest projects. For full year 2013, we expect our capital expenditures to be in the range of $1 billion to $1.1 billion. The increases related to the additional capital expenditures at the utilities moving forward, our energy export initiatives, and our new gas and power assets.

Our balance sheet remained strong with debt to total capitalization reported of 54.2%. We had a busy quarter on the financing front. In April, we issued 11.6 million shares for gross proceeds of approximately $405 million and issued two year US dollar $175 million MTN at LIBOR plus 0.79% and on June 6, we issued our longest tenure and the lowest interest rate MTN for $300 million and it carries a coupon of 3.57%.

Following up on David's comment and our dividend increase, our payout as a percentage of normalized FFO for the trailing 12 months ending June 30, 2013 was conservative at 41% at the lower end of our range of 40% to 50%. With the dividend increase, announced this morning, we expect to remain at the lower end of that range. Our debt maturity remains very manageable and we will continue to balance our long-term and short-term financings, as well as floating and fixed rate debt in order to execute the financing strategy that supports our business strategy.

We continue to be well positioned for long-term earnings, cash flow and sustainable dividend growth into the future. I will now turn the call over to David Harris.

David M. Harris, Chief Operating Officer

Thank you, Debbie, and good morning, everyone.

We are pleased with another strong quarter. The Power business more than doubled its operating income compared to Q2 last year and it's benefiting from higher Alberta power prices and the acquisition of Blythe.

In our Utility business, SEMCO had another solid quarter, delivering over $24 million in EBITDA. For the first nine months of ownership, this brings SEMCO, ENSTAR EBITDA contribution to approximately $120 million, well in line with our full year guidance of $130 million. Our Canadian utilities also reported higher earnings driven by colder weather and rate base growth.

Our Gas business had solid results primarily due to increased throughput from our new facilities, but was impacted by lower frac spreads, and higher power costs, although the Power segment saw the benefit of higher power prices. As David mentioned, our co-stream facility operated below capacity due to compressor modifications and low inlet pressure issues experienced by the NGTL system.

As a result, we prorated our take-or-pay revenues in Q2. The design modifications allow the compressors to operate effectively across a wider range of inlet pressure conditions. We expect to have these issues fully resolved with co-stream return to full capacity in Q3. Our Q2, 2013 total extraction volumes increased by over 16,000 barrels per day, primarily as a result of higher throughput and higher capacity. We saw higher volumes at Younger and the Edmonton extraction plant. Of note, as well as lower volumes in Q2, 2012 of approximately 4,300 barrels per day as a result of outages that were downstream from several of our extraction plants.

We had higher throughput at our FG&P facilities in second quarter 2013 averaging 413 MMcf per day, well above the Q2, 2012 throughput of 351 MMcf per day and higher than Q1 this year of 403 MMcf per day and 377 MMcf per day in Q4, 2012. We're beginning to see shut-in volumes come back on and continue to have healthy dialog for uses that lead us to believe that volume should continue to improve.

For the second quarter 2013, AltaGas hedged approximately 57% of frac exposed production at an average price of approximately $34 per barrel. This compares to approximately 80% hedged at approximately $35 per barrel in the same quarter last year. The spot NGL frac spread for Q2, 2013 was approximately $18 per barrel compared to approximately $27 per barrel a year ago.

Looking specifically at our Gordondale facility, we continue to operate at its take-or-pay level and had utilization of approximately 45% throughout Q2. Volumes have increased in Q3 and we have seen volumes steadily increase over the past few weeks and we expect them to continue to ramp up throughout the remainder of the year.

In our Power segment, we saw significantly higher results primarily due to the higher Alberta power prices in the quarter and the addition of the Blythe Energy Center. The Alberta power market was very strong in Q2, averaging $123 per megawatt hour compared to $40 per megawatt hour in Q2 of 2012. For the second quarter 2013, AltaGas' Alberta power generation was 67% hedged at an average price of $62 per megawatt hour compared to 74% hedged at approximately $65 per megawatt hour for the same period last year.

Looking at the rest of 2013, as David mentioned, we expect stronger results in our gas business, we expect volumes to continue to increase with Gordondale ramping up and with Co-stream returning to full capacity, we expect to recover our full cost of service revenue for most of the quarter. We're also seeing higher throughput at our Younger facility. We expect to produce approximately 6,200 barrels per day of C3 plus, that is directly exposed to frac spread of which 80% is hedged at an average price of approximately $30 per barrel before deducting extraction premiums. We have also started to see spot prices for NGL increase in recent weeks to the strong oil prices.

Let me now turn to the new projects we announced today. We continue to see many opportunities for organic growth. This morning, we announced Cogen III, another 15 megawatt project at Harmattan which will bring our total cogeneration there to 45 megawatts. This project provides strong returns and capitalizes on synergies at the Harmattan facility and will also allow us to take further advantage of power prices in Alberta. The total project provides strong returns and capitalizes on synergies at the Harmattan facility, also take further advantage of power price in Alberta. The total project is expected to cost approximately $40 million and be in service in Q4, 2014.

We also announced this morning the expansion of our Cold Lake natural gas transmission system, the expansion is to provide more natural gas, which will be used for steam generation of two SAGD heavy oil projects in the region. We have long-term take-or-pay agreements in place for both projects. The total cost is approximately $17 million and expansion is expected to be in service in late 2014.

Let me conclude today with an update on our Northwest projects. Construction on Forrest Kerr continues ahead of schedule and on budget. The total project is now approximately 84% complete. The intake structure is complete and work continues as planned within the powerhouse. Turbine-generator installation is progressing, eight of nine draft-tubes are in place and the final concrete pour sets have started on Unit 9. We continue to expect the plant to be mechanically complete by the end of 2013 and synchronizing to the grid by May 2014, once the Northwest Transmission Line is complete. We continue to monitor the progress of the NTL and it remains on track for COD in May 2014.

On our McLymont project, construction activities continue to ramp up at a steady pace. Construction of the intake access road is approximately 55% complete and excavation of the power tunnel is 15% complete with 480 meters out the total 2,800 meter length excavated. At Volcano, excavation of the intake site and diversion have been completed and the installation of the weir embeds has commenced. The Volcano Creek powerhouse foundation is complete and the concrete pour for the powerhouse walls and the turbine foundations will be completed within the next 90 days. Excavation of the penstock right-of-way has commenced and clearing of the transmission line right-of-away has been completed. McLymont and Volcano are expected to be in service in mid-2015.

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

Jess Nieukerk, Director Finance and Communications

Thank you, David. Operator, we’ll now move into the Q&A, please.

Operator

Thank you, Mr. Nieukerk. Questions will now be taken from the telephone lines (Operator Instructions).

The first question is from Linda Ezergailis with TD Securities. Your line is now open. Please go ahead.

Linda Ezergailis

Thank you. Congratulations on a strong quarter and congratulations on your promotion, David.

David M. Harris, Chief Operating Officer

Thank you.

Linda Ezergailis

With respect to the PNG expansion, can you give us a sense of approximate cost and how you might expect the TRA returns to be structured? Would it be a BCUC return plus a sort of risk premium? And what might that look like and when might you expect these TRAs to firm up? Is it solely conditional on the LNG projects being sanctioned and regulatory approval or are there some other contingencies like other company board approval or something like that?

David Cornhill, Chairman and Chief Executive Officer

I'll handle some of it as I think there are seven or eight questions in there. We think it will fall under general regulation from the BCUC and the rate is yet to be determined on that. With respect to the TRAs we are going forward to develop preliminary tolling information for the customers and once that goes through we expect it to have all capital required to make a final decision in signing on a long-term transportation agreement. So that will firm up over the remaining quarters of this year. These commitments fund all the cost to get to final decision and execution of long-term transportation agreements, which would be another Board decision for both us as well as the LNG customers and other customers. Not sure if I answered everything.

Linda Ezergailis

And what is the approximate cost potentially?

David Cornhill, Chairman and Chief Executive Officer

We're still looking at about $1.5 billion roughly, that's plus or minus a fair percentage at this point.

Linda Ezergailis

Okay. And the big spend on that would start in 2015?

David Cornhill, Chairman and Chief Executive Officer

More in 2016 or 2017. We're thinking about 18 month’s construction time.

Linda Ezergailis

Great. Thank you.

Operator

Thank you. The next question is from Carl Kirst with BMO Capital Markets. Please go ahead.

Carl Kirst

Thanks. Good morning everybody and congratulations as well, both for the quarter and to you, David. With respect to, maybe just kind of following Linda's question on PNG, really sort of two questions: If you guys were to make a positive FID with Idemitsu, but somehow Douglas Channel, I mean is the one train Douglas Channel enough to sort of underwrite this 520 or is there a potential of one goes forward and one doesn't that that would be a gaining factor to the project?

David Cornhill, Chairman and Chief Executive Officer

It would at this point complicate it, but we're under discussion with a number of additional customers that want additional capacity on the line. We have just not signed Transportation Reservation Agreements with those yet. We actually want to firm up the first two before we continue those discussions. So at this point we have extending queue of interest for additional capacity. So we think we're in good shape to fully fill the pipeline, even if one of the projects didn't go ahead.

Carl Kirst

Excellent. And maybe just sort of an extended question and Debbie, this is probably more for you from a risk management standpoint. As you eventually go through the regulatory process and recognizing I guess which might call some unique risks of putting this into rate base, but outside of sort of the residential load, how does that get managed from a credit profile in the future?

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

Very carefully.

Carl Kirst

Well said. I mean is Idemitsu perhaps, can they sleeve their credit rating to the JV or do they take the long-term risk or how should we think about that?

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

Well, how you should think about it is, our working assumption right now is that this investment goes into a regulated asset. And so, when we look at regulated returns, we look at the risk that is appropriate for those regulated returns. What we have done and what we will continue to do is require fairly stringent credit requirements to support those long-term contracts. As David has often said, we can't afford a flare at the end of that pipeline. So we need to make sure that the counterparties that are committed to these long-term transportation agreements have the creditworthiness that we would need to support a regulated return and we're protecting both the rate payers and the shareholders at the same time.

Carl Kirst
Excellent. And then last question, if I could, and I will chalk this up to the brilliance of David Harris buying Blythe right before SONGS announced retirement. What do you see as far as the potential or when do you actually start, I guess negotiations for either extending Blythe or in fact expanding Blythe given what SoCal's needs may be?

David M. Harris, Chief Operating Officer

We've actually started to have those dialogs internally, and to a certain extent externally. That started pretty much right after the close. And besides SONGS, we're seeing a lot of other activity within California with shrinking megawatt base because of the environmental regulation and plants just reaching natural retirement life cycle.

Carl Kirst

David, do you think those talks are going to take like two years to play out or is this something that the path is fairly straightforward that the long-term future of those assets probably will be determined sooner rather than later? Is there any color on timing you can give?

David Cornhill, Chairman and Chief Executive Officer

That's a little bit of a difficult picture to paint right now. I know California is trying to get their feet underneath them a little bit right with the acceleration of SONGS being shut down. There's also some other rumblings out there in the press about Diablo Canyon. So, I would think we should see something a little bit faster than what we anticipated. I wouldn't handicap it right now or within two years, but I would definitely say we'll see it a lot sooner than the seven years of which is left on the contract. And then we can revisit that once we have a little bit better indication of what's going on as we probably get into the early part of 2014.

Carl Kirst

Fair enough. Those are my questions. Thanks guys.

Operator

Thank you. The next question is from Robert Catellier with Macquarie, please go ahead.

Robert Catellier

Congratulations, David Harris, on the new title. My question here is on the dividend. I'm curious as to what incremental comfort level, what led you to that incremental comfort level to go with a second distribution increase this year?

David Cornhill, Chairman and Chief Executive Officer

Well, the company has performed very well, projects are continuing on-stream and quite frankly my Board thought I was a little conservative in the first quarter and with discussion they thought this was a bit more appropriate level. So it was just the strength of the performance. We just got through our planning meeting. This is more traditional time we would do dividends so they decided we should right size the dividend to $0.0075 increase for the year versus the $0.005 that we made in the first quarter. That was the dialog and we just saw a very strong performance in the company and with our Northwest projects continuing on-stream, the NGL looking at May next year and adding that type of capacity, the board thought our current level was a little too conservative.

Robert Catellier

Okay. Then on PNG, I wondered if you could talk a little bit about the backstopping agreements and the risk, presumably the counterparties on the TRA, including AltaGas and Idemitsu who are taking their proportionate share of the backstopping for the development cost. So I wonder what amount of capital that means to AltaGas when you net everything out?

David Cornhill, Chairman and Chief Executive Officer

It's little over $10 million and with respect to that we'll have LC commitments for all that capital from a PNG perspective, so secured by LC, so there will be no credit risk to the utility.

Robert Catellier

Okay. And then, there has been a change in your agreement with PNG. You've given up your reversion rights to I guess the right-of-way for next year $18 million, so I wondered if you could just talk a little bit about that and what led you to come to the conclusion that you can afford to give up the reversion rates to that asset and also the accounting treatment on that.

David Cornhill, Chairman and Chief Executive Officer

I'll speak to the first part and then Debbie can speak to the second. Short answer is, Chevron. The group has changed dramatically with the Chevron lead, capability, certainty going forward. Long-term we want strong relationships with them as we go forward and it just made sense. We viewed it as a low probability and low value to have those reversion rights. If Chevron could not make a LNG project we just felt that it wasn't high value and working with them made lot more sense, so that was the reason. Our projects going forward, well, from an expansion perspective, we saw decreasing value to our company with the announcement that Chevron was taking a lead in the project.

Robert Catellier

And the accounting?

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

So, on the accounting side, it will get recorded as a gain. It will show up in operating income in Q3 of course, subject to the approval of the BCUC, and from a tax perspective it will actually get tax as a capital gain.

Robert Catellier

Okay. And so you obviously not altered capital requirements for the year?

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

Sorry.

Robert Catellier

You've already netted your budget for Capex for this amount I assume?

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

Yes.

Robert Catellier

Yeah. And then finally, I'm just curious to see how much more runway you think you have both in building out additional Cogen capacity at the Harmattan Co-stream and as well as potential additional investments to serve Cold Lake SAGD producers?

David M. Harris, Chief Operating Officer

Robert, I'll answer that. On the Cogen side, after a Cogen III that will probably be it for the base facility. If we do anything else, generation or peaking, it will be outside of the fence at Harmattan. And as far as Cold Lake, we like what we see with the announcement we've made. We've got a good solid project, we underpin mostly with Pengrowth right now. So, we like what we see with the expansion opportunities at SAGD.

Robert Catellier

Thank you very much.

Operator

Thank you. The next question is from Robert Kwan with RBC Capital Markets, please go ahead.

Robert Kwan

Hey, good morning. Still want to follow-up first on the dividend question that Robert Catellier asked. David, you talked about just being conservative and investing the normal timing. Just wanted to make sure that you're still kind of looking at more annual increases versus moving to smaller increases every quarter?

David Cornhill, Chairman and Chief Executive Officer

That's my intention, but Board purview on dividends. So that would be my recommendation. And as Debbie pointed out, you could see the dividends approaching the lower end of our target range and from what I've seen under a number of the large pipeline FFO payouts as well. So, we expect it to be an annual announcement, but the Board has a right to review at any time.

Robert Kwan

Okay. What's your discussion at the Board level of moving to a just every quarter type increase?

David Cornhill, Chairman and Chief Executive Officer

No.

Robert Kwan

Okay. The rest of the questions I have are on the Gas business. You mentioned with respect to Harmattan Co-stream that you're able to forecast the service in mid-August and that you reduce the capital to fee while you're doing some the work. Was that contractual or was that just your choice with respect to maintaining the overall relationship?

David M. Harris, Chief Operating Officer

It was a little bit of both. There were a couple of things working in a dynamic there. We did have some issues with two of our compressors, as David said, and we've seen some variations and pressures so we've made a decision to turn around and make some improvements to those compressors to give us lot more robustness across on operating range. And then in combination with that there have been issues on the NGTL side with pressure coming from TransCanada for a number of different reasons. So in the sake of keeping a healthy relationship with Nova, which we have a great relationship, both parties agreed that was the right thing to do and then move on. And then we are well out of the woods on that now, and we should be completely out of the woods out of that as David said here early in the first part of Q3.

Robert Kwan, Analyst

And it makes sense. Are you able to quantify what the reduction in cash flow was for the quarter based on what you did at Harmattan?

David M. Harris, Chief Operating Officer

Well, I can give you on our production standpoint, it probably hurt us out of the 250 a day that we would design for, and it took it down to about 160 on a commercial take-or-pay basis.

David Cornhill, Chairman and Chief Executive Officer

Several million.

David M. Harris, Chief Operating Officer

About $3 million to $3.5 million, I think.

Robert Kwan

Okay. And then just on Gordondale, so you mentioned your operating 40% capacity in really at the take-or-pay level. And then, you've mentioned that volumes have improved. Are you still then within the take-or-pay contract or are these increased volumes actually expected to improve cash flow?

David M. Harris, Chief Operating Officer

No, we're actually above the take-or-pay contract right now and they're on even a slightly steeper trajectory than we thought as far as bringing volumes on. So we are cautiously optimistic that we'll continue through the balance of the year and we have no reason to believe it won't. So we like what we're seeing from Canada in bringing additional volumes on.

Robert Kwan

Okay. So I guess this one to gas business overall given that op income was fairly flat to last year despite Co-stream and Gordondale, it sounds like it's really just as you get the increased volumes, that's really going to hit the bottom line. And you've got that guidance for much stronger second half. Are those the issues or are those the reasons? Is there anything else going on that we should be thinking about?

David Cornhill, Chairman and Chief Executive Officer

Gordondale, mostly the costs are fixed, so as volume grow up profitability increases significantly. The other is frac spread year-over-year was down and we're seeing a stronger performance in the second half than we saw in Q2.

Robert Kwan

Okay. And just with the lower volumes moving, is that expected to drag on things or --?

David Cornhill, Chairman and Chief Executive Officer

Not material to us.

Robert Kwan

Okay, that's great. Thank you very much.

Operator

Thank you. The next question is from David Noseworthy with CIBC. Please go ahead.

David Noseworthy

Let me add my congratulations on a great quarter and your new appointment, David Harris. So perhaps I could just start off, Debbie, give some detail on the increase in your Capex guidance. But if I just look at quarter-over-quarter, your Capex guidance has gone up on the low end, $150 million on the high end, $200 million you announced about $60 million between Harmattan and Cold Lake. The remaining $100 to $150, can you provide us any granularity on what that's for?

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

So about $50 to $75 of that is incremental capital of the utilities and then there is the Cogen. Did you catch the Cogen III?

David Noseworthy

Yes.

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

Okay. And then, there is some incremental capital on the JV side and moving our energy export initiative forward. I think that pretty much covers it. We are seeing lots of projects in the pipeline and so that's why I gave a range, but I would say about $80 to $100 of that aren't completely pinned down yet, but it at least gives you directionally where we're going.

David Noseworthy

Thank you for that. And then just on the gas volumes, obviously, there's been a little bit of concern recently about the widening AECO NYMEX differentials and the potential impact on production in Alberta. What's all the Gas' perspective on that?

David M. Harris, Chief Operating Officer

We watch it just as closes as everybody does, but we're not really overly concerned at this point. We're also seeing our FG&P volumes, if you looked at it from Q1 of last year through the end Q12, they were on a descending tracking. And if you look at Q1 and Q2, I mean obviously because of our new assets, volumes have picked up, but also within the base business, we've seen shut-ins return. So, gas pricing is up a little bit as well, so that's helped out tremendously, it's up about I think almost $0.45 - $0.50 on average compared to where we were last year. So, right now we have it on the radar screen, but I'm not worried about it being overly impactful to us as the year pans out.

David Noseworthy

Thank you for that color. And then just one last question, when I look at your frac spread's average spot price and I compare that to either Edmonton posted prices, the kind of relative ratio has diverged from what we've seen historically, can you give any context of why that's happening?

David M. Harris, Chief Operating Officer

Well, I guess, one thing that could potentially be is the way the Gases has moved around Canada, and the recent tariffs associated with TransCanada, you see actually more gas being put into storage on the Alberta side.

David Cornhill, Chairman and Chief Executive Officer

The other is, Edmonton is becoming less reliable and most of our pricing is based on Conway and Mont Belvieu with differentials from there. So we find Edmonton is not a reliable marker for any liquid prices. I would say it's more of the issue with Edmonton than anything else, we've moved to over the last few years to Mont Belvieu and Conway pricing.

David Noseworthy

Okay, so what we've seen in terms of almost weaker pricing in the US versus Canada that would have -- we see some of that reflect through what you're seeing on your spot?

David Cornhill, Chairman and Chief Executive Officer

Yeah.

David Noseworthy

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

Operator

Thank you. The next question is from Steven Paget with First Energy. Please go ahead.

Steven Paget

Good morning and thank you. Just with the success of McLymont and Volcano and Forrest Kerr as well, do you see further material opportunities in the BC renewable market?

David M. Harris, Chief Operating Officer

We're always watching and I think it depends on what happens with LNG growth and other commercial and industrial growth, but I would certainly think there will be opportunities on the horizon.

Steven Paget

What about opportunities for renewable growth in Eastern Canada?

David M. Harris, Chief Operating Officer

We watch Eastern Canada. There are always a number of hurdles with respect to renewables in Eastern Canada, especially around the wind side of the business. We haven't elected to dabble in the renewable market there. It doesn't mean we won't down the road, but we watch it just like any other market within Canada as it relates to opportunities for renewable generation.

Steven Paget

And I'm cheating with the third question, is there a possibility that you might spin out your renewables into some sort of high yield vehicle like we're seeing TransAlta do?

David Cornhill, Chairman and Chief Executive Officer

We are not contemplating that.

Steven Paget

Thank you.

Operator

Thank you. The next question is a follow-up question from Linda Ezergailis with TD Securities. Please go ahead.

Linda Ezergailis

Thank you. With respect to some of the new projects you've announced and what you see in the pipeline, can you please provide us maybe with an updated financing plan?

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

Right now with the projects that we have in the pipeline, we're fully funded. We will look at terming out some debt. There is always the option of doing some preferreds as well as we have done in the past. But for all intents and purposes, we look at our current capital program as fully funded with no need for any equity or common share equity, I should say. If you see us announce any other major acquisitions or major projects, then we would look at what we need to do on the common share issuance front. But as you well imagine and you've heard us say many times, we are focused on maintaining our investment grade ratings, so a lot of our financing plan is really underpinned by making sure that that's not jeopardized.

Linda Ezergailis

Thank you. And is this a five-year plan or a one-year plan and how does the PNG expansion announced today reflect in your comments?

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

So, with respect to the large energy export capital initiatives, when we look at the timing of that capital, right now the assumption is that we will be able to fund that with the free cash flow that we'll see coming off of the business in the next two to three years. By the time, with the bulk of that capital is needed or that cash is needed for that capital, we'll be seeing the Northwest projects come on.

Linda Ezergailis

Great. Thank you.

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

So, our working assumption is, until we get further clarity on the timing of the cash flow, our long-term, our five year plan shows that it'll be internally funded.

Linda Ezergailis

Okay. Great, thank you.

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

Thanks.

Operator

Thank you. (Operator Instructions) There are no further questions registered at this time, I'd now like to turn the meeting back over to Mr. Nieukerk.

Jess Nieukerk, Director Finance and Communications

Thank you. That concludes AltaGas' second quarter 2013 conference call. If there are any follow-up questions, please feel free to give me a call. Thank you very much for joining us today.

Operator

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