

Q2 2014 EARNINGS CALL

CORPORATE PARTICIPANTS

Jess Nieuwerk *AltaGas Ltd. – Director, Finance and Communications*

David Cornhill *AltaGas Ltd. – Chairman & Chief Executive Officer*

David Harris *AltaGas Ltd. – Chief Operating Officer*

Debbie Stein *AltaGas Ltd. – Senior Vice President Finance and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Linda Ezergailis *TD Securities - Analyst*

Rob Hope *Macquarie Group - Analyst*

David Noseworthy *CIBC World Markets - Analyst*

Carl Kirst *BMO Capital Markets - Analyst*

Robert Catellier *GMP Securities - Analyst*

Steven Paget *FirstEnergy Capital - Analyst*

Robert Kwan *RBC Capital Markets - Analyst*

Matthew Akman *Scotiabank - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the AltaGas Limited conference call. I would now like to turn the meeting over to Mr. Jess Nieuwerk, Director of Finance and Communications. Please go ahead, Mr. Nieuwerk.

Jess Nieuwerk - *AltaGas Ltd. - Director, Finance and Communications*

Thank you. Good morning, everyone. Welcome to AltaGas' second-quarter 2014 conference call. Speaking today are David Cornhill, Chairman and Chief Executive Officer; David Harris, Chief Operating Officer; and Debbie Stein, Senior Vice President, Finance and Chief Financial Officer.

After some formal comments this morning, we will have a question-and-answer session. Before we begin, I would 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 will now turn the call over to David Cornhill.

David Cornhill - *AltaGas Ltd. - Chairman & Chief Executive Officer*

Thank you, Jess. Good morning, everyone. It was another very busy quarter. We continued to deliver solid financial results and executed on our growth strategy. Just yesterday, we safely started generating power at Forrest Kerr.

After four years of construction, we are very proud to have delivered such a significant project on time and on budget. This achievement would not have been possible without the great contribution of our dedicated staff, the Tahltan First Nations, and many contractors.

For the second quarter, our normalized earnings were \$0.22 per share compared to \$0.30 per share in the second quarter of 2013. Normalized FFO increased by 27% to \$105.8 million compared to \$83.1 million last year, as we received the first dividend payment from Petrogas.

Our gas segment is performing well. Gas benefited from significantly higher volumes processed, higher frac prices, and the contribution of Petrogas.

The Alberta spot power price, however, was one-third of what it was in the second quarter of 2013. This was partially offset by the positive contribution from Blythe. Our utilities continue to benefit from rate base growth, but we did experience warmer weather in Alaska and Michigan in the second quarter.

On a trailing 12-month basis, we continue to deliver strong financial results. We achieved \$543.3 million of normalized EBITDA and \$439.2 million of normalized FFO. On the growth front, we continue to make progress and build on opportunities driven by the growth in natural gas supply.

The Marcellus play is displacing traditional Western Canadian markets. We need to develop new markets for Western Canada's natural gas and natural gas liquids. We are finding solutions for this.

With Petrogas' logistics capability, we were able to source, transport, and deliver LPG to Ferndale and ultimately to international markets. We are ramping up export volumes at Ferndale to approximately 30,000 barrels a day over the next few years. We also continue to target a site off the British Columbia coast to export additional 30,000 barrels. We believe there's more than enough supply.

We continue to work with various parties to support the Douglas Channel LNG export initiative. The CCAA court deadline to reach definitive agreements is August 1, 2014. Although much progress has been made on the agreements, there is no assurance that definitive agreements will be reached with all stakeholders.

In the event that the CCAA proceedings are terminated due to the absence of agreement, the current insolvent project entities may be placed into receivership and the transportation agreement on PNG system to Kitimat terminates in accordance with the notice already given by PNG. In this event, we will continue to work towards development of floating LNG plant, using available PNG pipeline capacity and other available sites on Douglas Channel.

With energy export, we are competitively positioned to provide producers with a full range of services and markets. It is also providing us opportunities for gas processing. We are in advanced negotiations with a significant Montney reserve owner to form a strategic alliance.

The negotiations include new processing facilities and an alliance would offer us the opportunity to expand and build additional facilities to support ongoing drilling programs. We are hopeful that a public announcement can be made within 30 days.

We are also in advanced discussions with other reserve owners in northeast British Columbia to provide a range of processing services. These would complement ours and theirs energy export initiatives. The growth opportunities in our gas business are unprecedented.

We are well positioned for this growth and have demonstrated that we can execute successfully and profitably. We have achieved solid results in the first half of the year, and with the successful start up of Forrest Kerr and the pending start up of Volcano Creek, there is more to come.

I will now pass the call on to David Harris.

David Harris - AltaGas Ltd. - Chief Operating Officer

Thank you, David, and good morning, everyone. We performed well across all three business segments in the second quarter. Our gas business had a very strong second quarter; normalized operating income from our gas business was \$40 million, nearly double same quarter 2013.

Our gas business benefited from the acquisition of Petrogas, higher frac exposed volumes, and higher realized frac prices of \$22.12 per barrel compared to \$20.80 per barrel in Q2 2013.

In the quarter, we also continued to benefit significantly from the ramp-up in volumes in liquid rich areas. Total volumes processed increased by over 110 MMcf per day to 1,476 MMcf per day compared to Q2 2013, driven by higher volumes at Gordondale and Blair Creek.

In addition, Co-stream operated in accordance with contractual obligations to deliver returns in line with our expectations. Normalized operating income from our power business was \$13.2 million. The average realized power price for the quarter was approximately \$56 per megawatt hour, significantly lower than the \$87 per megawatt hour for the same period last year.

We experienced exceptionally strong spot prices in Alberta during the second quarter last year as a result of prolonged unplanned outages at large generators. Prices this year are more reflective of typical seasonality in the Alberta power market.

Generation volumes were comparable to the same quarter last year. However, this was overshadowed by significantly lower spot power prices. Weaker Alberta power results were partially offset by the contribution from Blythe.

Our utility segment continues to deliver solid results, with normalized operating income of \$19.9 million. Our Canadian utilities benefited from colder than normal weather and rate-based growth at Heritage and AUI compared to the same quarter last year. Results were negatively impacted by warmer weather at our US utilities, particularly in Alaska.

Let me provide an update on some of our projects under development. As David mentioned, we brought Forrest Kerr online and have begun delivering power to BC Hydro in the terms of our EPA.

Over the next 4 to 6 weeks, we'll be completing online electrical and system functional checks in coordination with BC Hydro, during which time, generators are expected to fluctuate. AltaGas expects final project commercial operation is to be achieved by the end of Q3 2014.

We have made significant progress at Volcano. Construction of the turbines, powerhouse, and intake is complete, installation of the pen stock has commenced, and commissioning will start in Q3 2014.

At McLymont Creek, tunnel construction is nearly 80% complete, construction of the powerhouse and installation of the turbines is underway, and progress continues on the intake access road. The project remains on track to be in service in mid-2015.

Our other projects are also progressing well. Cold Lake is on schedule and budgeted to be completed in mid-August and we received the regulatory approval for our Harmattan Cogen III project on July 29. Construction is underway at our Alton gas storage facility, with civil works being performed at the river and cavern sites, installation of the water lines is approximately 40% complete, and drilling at the cavern will begin in the first week of August.

On our regional LNG initiative, we have acquired a parcel of land in Dawson Creek in support of our first regional LNG project. Final engineering, procurement, and commercial arrangements of offtakers are progressing. On July 20, AltaGas signed an LOI with the government of British Columbia in support of this project.

We also continue to position ourselves to expand Blythe. In the second quarter, we acquired a shovel-ready permitted site adjacent to our facility. We believe that with the expansion, we can create synergies with our existing facility and are competitively positioned to participate in the upcoming California utility RFPs this fall.

That concludes my prepared remarks. I will now pass the call over to Debbie.

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Thank you, David, and good morning, everyone. In the second quarter, we achieve normalized earnings of \$26.8 million or \$0.22 per share compared to \$35.5 million or \$0.30 per share in second quarter 2013.

On a GAAP basis, net income applicable to common shares for second quarter 2014 was \$28.9 million or \$0.23 per share compared to \$35.9 million or \$0.31 per share for second quarter 2013.

Normalized EBITDA for the second quarter 2014 was \$107.3 million. Normalized funds from operations increased 27% to \$105.8 million, or \$0.86 per share, compared to \$83.1 million, or \$0.71 per share, in the same period 2013.

In the second quarter, we received our first distribution from Petrogas, which contributed to the increase in our funds from operations. Our payout as a percentage of normalized FFO for the trailing 12 months ending June 30, 2014, remains conservative at 43%.

Interest expense for the second quarter 2014 was \$23 million. This is lower than the same period last year as a result of higher capitalized interest of \$10.8 million and lower average borrowing rates.

In the second quarter 2014, we reported an income tax expense of \$5.7 million compared to an income tax recovery of \$2.9 million in the same quarter last year. Recall the recovery was due to two factors: a statutory tax rate change related to dividends paid on preferred shares and an adjustment made to our deferred tax liability account.

For the six months ended June 30, 2014, normalized net income was \$100.5 million compared to \$91.1 million. In both periods, normalized earnings per share were \$0.82.

On a GAAP basis, net income applicable to common shares for the six months ended June 30, 2014, was \$68.8 million, or \$0.56 per share, compared to \$85 million, or \$0.76 per share, for the same period 2013.

Year-to-date GAAP earnings included an after-tax gain of \$9 million from the sale of assets, a non-cash after-tax provision of \$36.8 million related to some of the assets we acquired with the Taylor acquisition back in 2008, costs associated with the early redemption of medium-term notes, and development costs incurred for energy exports.

For the three and six months ended June 30, 2014, net invested capital was \$137.2 million and \$231.9 million, respectively. For full year 2014, we expect our capital expenditures to be in the range of \$450 million to \$500 million.

Our balance sheet remains strong, with debt to total capitalization of 53% at the end of the second quarter. On the financing side, in July, we successfully completed an 8 million share issuance of our Series G preferred shares for gross proceeds of \$200 million.

Our average debt maturity is just over six years and continues to be very manageable. We will continue to balance our long-term and short-term financings as well as our floating and fixed-rate debt in order to execute a disciplined financing strategy that supports our business strategy.

And with that, I'll turn the call over back to Jess.

Jess Nieuwerk - AltaGas Ltd. - Director, Finance and Communications

Thank you, Debbie. Operator, I will turn the call over to you for Q&A session.

QUESTION AND ANSWER

Operator

Linda Ezergailis, TD Securities.

Linda Ezergailis - TD Securities - Analyst

Thank you. Can you maybe help us out a little bit with the Forrest Kerr and Volcano Creek contribution in 2014, given the start dates and the seasonality as a ballpark, maybe, percentage of normalized annual contribution or something to help us out?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

We will work on that, Linda. I think probably later in the fall is a better time. There's a range now and I'm not sure that we will be getting that out to the market.

Linda Ezergailis - TD Securities - Analyst

Okay. And just to confirm that you are going to start booking earnings on your income statement after payments are actually made, when you talk about commercial operations. So for Forrest Kerr, it would be kind of the end of Q3?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

No, we will be booking earnings on test power as well, Linda.

Linda Ezergailis - TD Securities - Analyst

Okay, yes, then we need a little bit more help.

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

Yes.

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes.

Linda Ezergailis - TD Securities - Analyst

Just another follow-up question. Can you give us a sense of whether there was any maintenance capital in your power or utilities or corporate segments? I just saw the gas maintenance capital in your disclosure.

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes, gas would be the \$0.9 million. It depends on how you look at the Blythe turnaround. There was another \$1.5 million that we spent on Blythe.

But again, that \$15 million or so of cash went out the door on the Blythe turnaround we are amortizing over three to seven years, so it depends on how you treat that \$1.5 million. And on the utilities all of our capital is treated as regular capital. There's no allocation to maintenance, per se.

Linda Ezergailis - TD Securities - Analyst

Okay, sorry. The \$1.5 million --

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Related to the Blythe.

Linda Ezergailis - TD Securities - Analyst

Okay. That's how you guys would look at it?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes.

Linda Ezergailis - TD Securities - Analyst

Okay, thank you.

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

We treat it as normal capital.

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes, but we treat it as normal capital.

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

Amortized over three to six, seven years.

Linda Ezergailis - TD Securities - Analyst

The \$15 million?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes. The full \$15 million, but \$1.5 million was in Q2. The rest we booked in Q1.

Linda Ezergailis - TD Securities - Analyst

Okay, thank you. Great, thanks.

Operator

Rob Hope, Macquarie.

Rob Hope - Macquarie Group - Analyst

Good morning. I was just hoping maybe you could provide a little bit more clarity on this northeast BC alliance. Is this just for gas processing or does this extend down the value chain to fractionation and transportation? And if so, is that focused in BC or at Fort Saskatchewan?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

It is a full from wellhead to market alliance and locations are various places. I can't quite say anymore there, but we are focused clearly on supporting energy export, both on LPG and LNG.

Rob Hope - Macquarie Group - Analyst

Okay, that's great. And maybe just switching over to Douglas Channel, is the August 1 a firm deadline or could we see extensions there and what are the main hold-ups right now?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

For us, it is a firm deadline.

Rob Hope - Macquarie Group - Analyst

And are you still interested in owning part of the onshore assets there?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

We are still actively working to resolve, but we will see what happens on August 1.

Rob Hope - Macquarie Group - Analyst

All right, thank you. I will jump back in the queue.

Operator

David Noseworthy, CIBC.

David Noseworthy - CIBC World Markets - Analyst

Good morning, everyone. Congratulations on the start up of Forrest Kerr. Just on the Douglas Channel, I guess we are on July 31, you have a fairly good idea of what's going to happen come August 1.

In the case that you don't have an agreement with Douglas Channel LNG, what does that do for your Triton project and the timing of your Pacific Northern Gas looping project?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

There are a number of other options that we have, and I wouldn't say it would materially disrupt those projects.

David Noseworthy - CIBC World Markets - Analyst

Okay. And I guess, then, how do you think about the FID? You mentioned in your MD&A you're looking for a late 2015 FID for the looping project. Is that predicated on an FID for Triton before that? And if not, how do you think about it?

David Harris - AltaGas Ltd. - Chief Operating Officer

To David's point, it wouldn't be material to where we would be on FID for Triton for the looping project.

If you are referring to what happens or doesn't happen on August 1.

David Noseworthy - CIBC World Markets - Analyst

No, sorry, no. This is a separate question. Just saying you've put out there that the looping project, you're looking to FID in late 2015. And I'm asking is that basically -- is there a precedence to that FID being FID on Triton?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

David, it would be. So that late 2015, we've had that in our disclosure for a while. We are working on the projects and so we will see, as projects unfold, whether that date moves or not. But until we have firmer dates, we are not inclined to keep moving our dates around.

So I would treat that as more to come on when a FID actually happens. Right now, based on how the projects are unfolding, there is a likelihood that it could happen by the end of 2015, but we have also said it depends on firming up the site, firming up the offtake agreements on all of the technology related to FID, so all of the work is still progressing on the feed studies and the site locations. So that's how I would look at that.

David Noseworthy - CIBC World Markets - Analyst

Okay. Maybe just one last question around the Douglas Channel and how it relates to your other projects. Is there an opportunity, if an agreement and definitive agreements were reached, that your West Coast LPG facility could also be located near or on the same site as Douglas Channel?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

It's clearly not our primary target for LPG export.

David Noseworthy - CIBC World Markets - Analyst

Okay, great. I will go back in the queue. Thank you very much.

Operator

Carl Kirst, BMO Capital.

Carl Kirst - BMO Capital Markets - Analyst

Just maybe staying with Douglas Channel. And considering where we are on the process, you may not be able to quantify at this point, but if all parties were able to come to definitive agreement, as we sit here on July 31, is there any sense of what the broader soup to nuts through development, what the capital outlay would be? Or net to AltaGas?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

It's in the hundreds of millions of dollars to AltaGas, potentially. And that would deliver a project to export. So it's not huge -- the first phase of the Douglas Channel would not be a huge capital investment, but would be in the \$100 million to \$200 million.

Carl Kirst - BMO Capital Markets - Analyst

Okay, that's helpful, thank you. And then just a question on Ferndale, if I could, because my understanding before Petrogas bought it was that it was one of the few operating facilities that were able to export propane that the facility itself -- and I may be mistaken here -- could in fact support the 30,000 barrels a day.

I'm trying to get to a better sense of as you look at this ramp to 30,000 barrels over the next several years, what is the primary gating factor to that ramp?

David Harris - AltaGas Ltd. - Chief Operating Officer

I'll jump in. This is David Harris. The facility itself has the ability to turn around and handle 30,000 barrels a day. The primary hurdles we will deal with in cooperation with Petrogas is working on logistics and converting one of the tanks that are there now.

Both tanks were in butane service. We will have to convert one of the tanks back to propane service.

Carl Kirst - BMO Capital Markets - Analyst

Okay, that's helpful. All right, thank you, guys.

Operator

Robert Catellier, GMP Securities.

Robert Catellier - GMP Securities - Analyst

I would like to talk about Blythe for a minute, here. You made an announcement today that you've acquired an additional project that looks like it's shovel ready. That's a gas-fired project.

With the additional land that you're buying in addition to that, are you considering more gas-fired projects or are renewable projects, such as solar, included in your strategy?

David Harris - AltaGas Ltd. - Chief Operating Officer

No, the primary focus in the Blythe area would be gas-fired projects at this time.

Robert Catellier - GMP Securities - Analyst

And I just want to clarify that the land acquisition there -- I don't want to double count anything, I want to make sure that that is different from the access line that was acquired during the original acquisition in 2013.

David Harris - AltaGas Ltd. - Chief Operating Officer

That's correct.

Robert Catellier - GMP Securities - Analyst

So there's two additional pieces for the Blythe site today?

David Harris - AltaGas Ltd. - Chief Operating Officer

That's correct.

Robert Catellier - GMP Securities - Analyst

Okay. Just to clarify the goings-on on the Douglas Channel here, it looks like you're maybe a little bit more cautious in your wording and it's obviously quite sensitive, but I just want to clarify the siting decision on Triton.

So should you not conclude a definitive agreement on Douglas Channel, do you have enough siting options currently that you would not jeopardize the Triton FID estimate at this point?

David Harris - AltaGas Ltd. - Chief Operating Officer

Yes.

Robert Catellier - GMP Securities - Analyst

Okay. I, too, will voice my opinion that it will be helpful to have a little bit more clarity on the Q3 utilization now for Forrest Kerr, understanding that they're still is some obvious commissioning work to be done there.

But maybe on the bigger picture with the northeast BC alliance, just to give sort of a general sense of the scope here, do you foresee being able to use the Petrogas assets and any of your BC LNG assets in a material way to help with that alliance? Is that currently contemplated in the scope of the alliance?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

We are looking at fully integrated services all the way to markets, whether those are international markets or domestic markets.

Robert Catellier - GMP Securities - Analyst

Okay. And then finally on the ramp-up of Ferndale, have you published or otherwise given the market a capital expectation to get that facility up to the 30,000 barrel a potential?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

No, we haven't.

Robert Catellier - GMP Securities - Analyst

Do you care to ballpark it now?

David Harris - AltaGas Ltd. - Chief Operating Officer

It's relatively not too material dollars. We're probably looking at something that could range, I don't know, \$25 million to \$50 million-ish, maybe a little above that, depending on how we expand it.

Robert Catellier - GMP Securities - Analyst

Okay.

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

Those are gross dollars.

David Harris - AltaGas Ltd. - Chief Operating Officer

And those are gross dollars, correct.

Robert Catellier - GMP Securities - Analyst

Right, so it's really just the tankers, then?

David Harris - AltaGas Ltd. - Chief Operating Officer

That's correct, in the initial stages, with a little bit of contemplation for logistic support, potentially extra real siting capability.

Robert Catellier - GMP Securities - Analyst

Right. All right, okay. Well, congratulations on Forrest Kerr. Those are all my questions.

Operator

Steven Paget, FirstEnergy.

Steven Paget - FirstEnergy Capital - Analyst

My first question on Petrogas -- how much of the cash dividend comes from revenue based on commodity prices and how much from fee-based revenue?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Generally speaking, I would say the commodity is about 50% and the fee-base is about 50%. And then overall, about 10% of their earnings are, I would say, commodity exposed. Typically, the way they transact is back-to-back deals.

Steven Paget - FirstEnergy Capital - Analyst

Which are not exposed, because they are locked in right away?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Correct.

Steven Paget - FirstEnergy Capital - Analyst

Thank you, Debbie, that is very useful. On the Sonoran Energy project, the proposed power plant would be a duplicate of Blythe, is that correct?

David Harris - AltaGas Ltd. - Chief Operating Officer

That's what's being contemplated at this time, but we also have some optionality to look at some slightly different -- maybe a little bit more megawatts, but very, very close to what we have at Blythe I.

Steven Paget - FirstEnergy Capital - Analyst

Thank you, David. If it doesn't get an RFP for California, what's the timeline on possible RFPs for Arizona?

David Harris - AltaGas Ltd. - Chief Operating Officer

That's a good question. We're looking at that ourselves. We believe there is optionality in Arizona. That may follow a little bit later on, say, the middle to the tail end of 2015.

Steven Paget - FirstEnergy Capital - Analyst

Thank you, David. On gas processing, how big in terms of either dollars or MMcfs per day could the processing alliance be?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

Probably up to half a bcf/d.

Steven Paget - FirstEnergy Capital - Analyst

Thank you, David. Those are my questions.

Operator

Robert Kwan, RBC Capital Markets.

Robert Kwan - RBC Capital Markets - Analyst

If I can just start on Forrest Kerr -- so Debbie, you said you're going to book earnings or revenues, I guess, while you're going through the testing. I assume that means everything is going to come on to the income statement, including the capitalized interest and depreciation?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes, once we have enough critical mass and we're generating enough test power into the BC grid, we believe we will be recording that as income and then the full depreciation will start coming on to the income statement as well.

Robert Kwan - RBC Capital Markets - Analyst

Okay, so everything comes on the income statement? You're not going to book the cash flows back against CapEx?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes, it's not likely that it will be a material amount, if we do book anything to capital.

Robert Kwan - RBC Capital Markets - Analyst

Okay. And then just turning to Douglas Channel -- the August 1 date, it's kind of followed continual delays here. So from your perspective, though, is this a hard drop-dead date, where if nothing comes together tomorrow, you guys are going to pull out of the process?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

That's our position.

Robert Kwan - RBC Capital Markets - Analyst

Okay. So effectively, I guess, the way to think about it is as of August 2, you're going to have access to the PNG pipe one way or the other?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

That's what we expect or shortly after that.

Robert Kwan - RBC Capital Markets - Analyst

Okay. And then I guess just last question here, with Petrogas or just around the dividend payments. I know you mentioned that was a semiannual expectation. Was this payment representative of six months or was it a little bit more, with the stub period from last year?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

It did represent the stub period from last year as well.

Robert Kwan - RBC Capital Markets - Analyst

Okay. And then are they paying out all of the -- or virtually all of the free cash flow after growth or is this effectively an FFO payout from them and then you kick capital back in as they have growth projects?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Right now, the working assumption is that, subject to the Petrogas Board approval, we would pay out whatever is available to be paid out.

Robert Kwan - RBC Capital Markets - Analyst

And is that calculated before or after growth CapEx?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

It would be before growth CapEx.

Robert Kwan - RBC Capital Markets - Analyst

And then you would kick capital back in if they need something for growth?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

If required, yes. There was a requirement for minimum dividend payout, but we did declare a dividend that was above that for the period that we've owned it.

Robert Kwan - RBC Capital Markets - Analyst

Okay. And this was virtually all of the free cash flow? There's no holdback?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

There was -- they did have remaining free cash flow. We didn't take it all.

Robert Kwan - RBC Capital Markets - Analyst

But is it substantially --

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes, they did not dividend it all out.

Robert Kwan - RBC Capital Markets - Analyst

But is it a substantial portion? Like this is pretty representative of the underlying?

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

I think it's consistent with what you should expect from Petrogas. We have not made any incremental investments or capital to Petrogas and they have been growing their business with internally generated cash.

Robert Kwan - RBC Capital Markets - Analyst

Okay. And then Debbie, just on your comment, 50% commodity, 50% fee, but 10% of the earnings are commodity driven. So just to be clear, the other, call it, 40% in the commodity bucket is basically spread driven?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

It's back to back.

Robert Kwan - RBC Capital Markets - Analyst

So I guess the downside is more spreads converge and therefore the profitability there would be at risk?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes.

Robert Kwan - RBC Capital Markets - Analyst

Okay.

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

That's the way to look at it.

Robert Kwan - RBC Capital Markets - Analyst

Okay, thank you.

Operator

Matthew Akman, Scotiabank.

Matthew Akman - Scotiabank - Analyst

I noticed that you've said construction has started on Alton storage. And I'm just wondering if you've fully developed the fee model there yet. Is it all contracted back to Heritage Gas or could there be third parties? Will it be in rate base or out of rate base? And I guess related as do you guys have construction cost risks? Thanks.

David Harris - AltaGas Ltd. - Chief Operating Officer

Okay, I will answer that. It's going to be a combination of a couple of things. There will be some contracted volumes to Heritage. We'll be looking for third parties and we have very minimal construction risk on the project.

Matthew Akman - Scotiabank - Analyst

And it will not be in rate base -- is that right, David?

David Harris - AltaGas Ltd. - Chief Operating Officer

No, it will not be in rate base.

Matthew Akman - Scotiabank - Analyst

Okay. But I guess the contract back to Heritage has to be approved by the regulator?

David Harris - AltaGas Ltd. - Chief Operating Officer

That is correct.

Matthew Akman - Scotiabank - Analyst

So you feel comfortable sufficiently that the terms of that will be approved so that you could start construction in advance?

David Harris - AltaGas Ltd. - Chief Operating Officer

Yes, we do.

Matthew Akman - Scotiabank - Analyst

Okay.

David Cornhill - AltaGas Ltd. - Chairman & Chief Executive Officer

The regulator has approved the use of storage. They haven't approved the actual terms of the agreement.

Matthew Akman - Scotiabank - Analyst

Yes, okay. I did notice they had approved it in principle. On utilities, if I could just switch there, there's a comment in the quarter about higher expenses impacting earnings to some extent as a result of growth.

So I'm just wondering whether that means that you guys are looking toward some kind of rate case or how you're looking at recovering those? Presumably, that has to do with maybe SEMCO?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Yes, it does, and so we are filing a rate base in Alaska. We are expecting sometime in the near future. And in Michigan, we are looking at the timing of that rate case to see how you balance the incremental cost and capital that you're putting in with your regulatory risk.

So that is being worked on, and so there is no requirement at any given point in time to file in Michigan, so we decide when that filing happens.

Matthew Akman - Scotiabank - Analyst

Okay, so you're still considering that.

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

Sorry, Matthew, on the issue of the OpEx, some of it was seasonal and we expect that we will get that back in the second half of the year. But not all of it is OpEx that we won't recover.

Matthew Akman - Scotiabank - Analyst

Okay, thanks. Just a last question on utility. I know there is a little bit of friction in Alaska on the rates increases related to commodity. I'm just wondering if you could provide your perspective on that, maybe where you see that going, and any learnings?

David Harris - AltaGas Ltd. - Chief Operating Officer

I think it's settling down. It's a timing issue as it relates to gas cost recovery. And I think, as the team up there works collaboratively with the public on education, we've seen this things settle down tremendously over the last week. So we're not worried about any significant issues going forward.

Matthew Akman - Scotiabank - Analyst

Good to know. Good. Thanks, guys, those are my questions.

Operator

David Noseworthy, CIBC.

David Noseworthy - CIBC World Markets - Analyst

Just a couple of questions on the regional LNG. Can you just describe what are the major decision factors for potential offtakers and kind of when you expect to have those baseload offtaker agreements in place?

David Harris - AltaGas Ltd. - Chief Operating Officer

I think it comes down to price competitiveness in the marketplace is probably the biggest drivers and that's driven by the capital cost of the project. And we would anticipate to have final cost wrapped up probably, say, within the next month or so. And then hopefully shortly thereafter, moving into commercial terms for offtake with the offtakers we are in discussions with.

David Noseworthy - CIBC World Markets - Analyst

Okay. And then with regards to the letter of intent signed with the BC government around this regional LNG opportunity, how do you see any subsequent agreements impacting your capital costs or offtake agreements, or are they kind of separate in your mind? How are the two relate?

David Harris - AltaGas Ltd. - Chief Operating Officer

Yes, I would think they are separate and we would not see any material impact at this point.

David Noseworthy - CIBC World Markets - Analyst

Okay. What exactly is that agreement going to do for you?

David Harris - AltaGas Ltd. - Chief Operating Officer

Provides more regulatory certainty for us.

David Noseworthy - CIBC World Markets - Analyst

Okay. Around taxes as well or just approvals?

David Harris - AltaGas Ltd. - Chief Operating Officer

Just approvals and cost recovery.

David Noseworthy - CIBC World Markets - Analyst

Okay. And then just last -- and maybe this is in the MD&A and if I missed it, I apologize -- but can you provide more detail around the \$28.7 million provision related to the former Taylor assets?

Debbie Stein - AltaGas Ltd. - Senior Vice President Finance and Chief Financial Officer

That was what we booked in Q1, David, with respect to the EDS and JFP pipelines. Nova informed us that they were going to exercise their options to take that back.

David Noseworthy - CIBC World Markets - Analyst

Got it, thank you.

Operator

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

Jess Nieuwerk - AltaGas Ltd. - Director, Finance and Communications

Thank you, operator. That concludes AltaGas' second-quarter 2014 conference call. We are available for any follow-up questions that you may have. Thank you for joining us today.

Operator

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