2016 SECOND QUARTER EARNINGS CALL

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the AltaGas Ltd. Q2 2016 conference call. I would now like to turn the meeting over to Mr. Jess Nieukerk, Senior Director Investor Relations. Please go ahead.

Jess Nieukerk - AltaGas Ltd. *– Senior Director Investor Relations*

Good morning, everyone. Welcome to AltaGas' second-quarter 2016 conference call. Speaking today are David Harris, President and Chief Executive Officer; and Tim Watson, Executive Vice President 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 Harris.

David Harris - AltaGas Ltd. *- President & CEO*

Thank you, Jess. Good morning, everyone.

Over the last quarter, we significantly advanced many of our key initiatives while delivering strong results. Normalized EBITDA for the second-quarter 2016 increased by 43% to $153 million, up from $107 million a year ago. This is the highest Q2 EBITDA AltaGas has ever delivered.

Normalized funds from operations increased 68% to $114 million or $0.75 per share, from $68 million or $0.50 per share a year ago.
With these strong quarter results, the completion of our Townsend facility, and our positive outlook for the remainder of 2016, the Board decided to raise the dividend 6.1% or $0.01 per share per month.

Our strong financial performance in the quarter is primarily attributed to the addition of the San Joaquin facilities at the end of November 2015, which we acquired. And to McLymont, the last of the Northwest hydro facilities that was brought online in October 2015. Together these facilities contributed over $30 million in EBITDA to our second-quarter results.

At the segment level, overall normalized EBITDA results for Q2 2016, compared to Q2 2015, are as follows -- Our power assets more than doubled to $75 million. Our utilities are up 12% at $46 million given the stronger USD and colder weather experienced in Michigan. And despite the lower hedge gains, our gas segment was flat at $37 million.

On the corporate side, our costs were flat in Q2 2016 versus Q2 2015, but as a result of restructuring and corporate efficiencies, we expect to see an annualized reduction of approximately $7 million in operation and administrated expenses. As I mentioned in our Q1 conference call, we have a strong focus on G&A costs and on being a top-tier operator with strong construction expertise.

Our construction team did a fantastic job to bring the Townsend facility, associated infrastructure, the gas gathering lines, the liquids egress lines and the Alaska Highway truck terminal into service, and they were ahead of schedule at approximately $40 million under our original budget. The Townsend facility was completed in early July, and the plant entered commercial operations on July 10.

These facilities are the first major step with our Northeast BC strategy, and we see significant potential to leverage the footprint we have in this area. With one of the only major modern gas processing facilities there, we have significant competitive advantages to offer further capacity for producers in the region.

We've already had significant discussions with various producers on the potential to build a deep-cut facility, and we certainly see the ability to double our Townsend facility, well before the end of the decade. Based on our current views, we expect we could eventually get to 1 Bcf of processing capacity in the region.

On our LPG export strategy, we have significantly advanced our proposed Ridley Island Propane Export Terminal. The MOU that we signed with Astomos outlines all of the key terms for a multiyear offtake agreement, which has the ability to be extended. Astomos will take at least 50% of the 40,000-barrel-per-day facility, while this commitment is enough for us to move toward FID on the project, we have advanced commercial discussions with other offtakers as well.

We continue to make good progress on the regulatory side as demonstrated by the submission of our Environmental Evaluation document, and we are anticipating regulatory approvals by Q4 of this year. We continue to work closely with the First Nations, the port of Prince Rupert and the Canadian Environmental Assessment Agency to achieve FID later this year.

This project is unique in terms of its ability to offer producers in both BC and Alberta product egress into premium global markets for a modest contractual commitment relative to various other alternatives, including petrochemical, which are being promoted by various players.

Our North Pine Liquid Separation Facility near Fort St. John is also progressing. The facility can connect our existing infrastructure in the region to our proposed Ridley Island Propane Export Terminal. We completed our front-end engineering and design study for the 20,000 barrels per day of C3+, and 20,000 barrels per day of C5+, and expect to receive approvals from the B.C. Oil and Gas Commission in the third quarter.

I will note that North Pine is modeled on a standalone basis. It is not dependent on our Ridley Propane Export Terminal. Ridley, however, has clearly driven significant interest in North Pine from producers, as we can offer services throughout the full energy value chain, and can offer preferential access to premium markets for producers that use our value chain.

Our power segment is also seeing a lot of activity. And our views on the California and Desert Southwest markets continue to be strengthened. Already today, the duck curve, or the need to backstop solar generation is getting steeper and steeper. Thousands of gas fire megawatts are often needed when the sun disappears. As more solar megawatts come on during the day, flexible gas plants will only become more important. In fact, the California ISO announced on Tuesday, June 12, solar production reached a record of just over 8,000 MW. The dramatic increase of solar production in California highlights the need for flexible gas generation to quickly handle the rise and setting of the sun. Most recently it was announced that the 2,200 MW Diablo Canyon nuclear facility will be retired by 2025 and replaced predominantly with renewable energy. This brings the total expected retirements of nuclear and thermal generation up to approximately 15,000 MW over the next decade.

A good portion of these megawatts will be replaced with renewables. This further adds to the value of existing flexible fast ramping gas-fire facilities that can help backstop intermittent renewables. We are proactively looking at all other potential options in California and the Desert Southwest.

There have been a couple of RFPs to date, and we expect several more over the course of 2016 and 2017. While you can expect that we will look and bid on these, not every RFP will best fit our profile, so we will update you on them when anything material develops. We also are not solely depending on RFPs. We've been proactively having discussions with utilities and public power entities for by-lateral multiyear contracts.

Our California sites can meet a wide variety of energy products and needs in the West. There is continued need for resource adequacy, and resource adequacy market prices are expected to strengthen over the next several years.

In addition, increased renewable production will lead to an increased reliance on and payment for ancillary services from gas plants, which will also provide revenue opportunities. We expect the provision of each of these products to increase the value of existing assets and our ability to grow in the market.

Finally, our sites can house multiple technologies including gas fire plants, renewables and storage. With this optionality and flexibility, and with the market fundamentals all pointing in the right direction, we strongly believe our California Desert Southwest strategy remains solid.

To summarize, we continue to maintain an excellent track record as it relates to execution. Our construction capabilities are top-tier, and we're certainly able to deliver projects on time and below budget, providing producers with the lowest-cost option for their product.

Our full Northeast BC and Canadian LPG export strategy is coming together, which provides producers with a full energy value chain, and access to Asian markets. We expect to have significant updates on our growth over the second half of 2016.

On top of this, we had a record second quarter, and we are well on track to deliver on our guidance of approximately 20% growth in normalized EBITDA, and up to approximately 15% growth in normalized funds from operations over 2015. Let me now turn the call over to Tim.

Tim Watson - AltaGas Ltd. – *Executive Vice President & CFO*

Thank you, David. Good morning, everyone. The defining link between AltaGas' three diversified business lines is that they represent vital energy infrastructure assets, and the strength of this combined platform is clearly evident by the record results achieved in the second quarter.

Normalized EBITDA was up 43% in the quarter to $153 million, compared to $107 million in the same quarter of 2015. Across our three business lines, power EBITDA was up 120% in the second quarter of 2016, relative to last year, and represented 47% of total normalized EBITDA in the quarter. The acquisition of the San Joaquin power assets in California was a contributing factor.

Also, the Northwest-British Columbia Hydro facilities exhibited strong performance as a result of the startup of McLymont in the fourth quarter last year, and improved performance at Forrest Kerr after a full year of operations, along with higher river flows. Realized hedging gains on the Alberta Power portfolio were partially offset by the absence of equity income from the Sundance B PPAs. Utilities EBITDA increased 12% year over year, and represented about 30% of total normalized second-quarter 2016 EBITDA.

Utilities had a strong quarter driven by the US dollar, colder weather in Michigan, and rate base in customer growth. This was partially offset by warmer weather in the other utility franchises, as well as higher costs of the US utilities. Finally, EBITDA from the gas midstream assets was flat compared to the second quarter 2015, and accounted for 23% of total normalized EBITDA.

Volumes at the extraction facilities increased year over year, as there were no turnarounds at the two largest extraction plants being Harmattan and Younger. Offsetting this were lower fuel gathering and processing volumes, primarily due to the sale of the Tidewater assets in the first quarter of 2016, as well as lower realized frac spreads. That is a function really of the strong hedging gains that we saw in 2015.

For the second quarter of 2016, AltaGas reported normalized funds from operations of $114 million or $0.75 per share, compared to $68 million or $0.50 per share in the second quarter of 2015. This represents a 68% increase in funds from operations and a 50% increase on a per-share basis.

Normalized funds from operations were up as a result of stronger results in the power and utilities segments, combined with higher distributions from Petrogas, partially offset by higher interest expense and current income tax expense. In the second quarter, we received $6 million in common share dividends from Petrogas, which was in line with our expectations. Year to date, we have received $12 million in common share dividends from Petrogas compared to only $11 million throughout all of 2015.

We expect to receive $6 million in Petrogas common share dividends for each of the third and fourth quarters of 2016. In the second quarter, AltaGas invested $150 million in the 8.5% cumulative redeemable convertible preferred shares of Petrogas, and that will result in about $3.2 million in dividends per quarter starting with the third quarter of 2016.

The funding will go towards debt repayments and continued growth initiatives within Petrogas. Normalized net income for the second quarter of 2016 was $29 million or $0.19 per share. Compared to $9 million or $0.07 per share in the second quarter of 2015.

Normalized net income was higher due to the same factors impacting normalized EBITDA mentioned previously, partially offset by higher depreciation, amortization, interest expense and preferred share dividends. On a US GAAP basis, net income applicable to common shares for the second quarter of 2016 was $16 million or $0.10 per share. This compares to a net loss of $22 million or $0.16 per share for second-quarter 2015.

Normalizing adjustments in the second quarter of 2016 relate primarily to unrealized gains on risk management contracts and restructuring charges. During the quarter, AltaGas completed a restructuring that reduced the non-utility workforce by approximately 10%, resulting in pretax restructuring cost of approximately $7 million. Going forward, this is anticipated to reduce operating and administrative expenses by approximately $7 million on an annualized basis.

For the second quarter of 2016, interest expense was $36 million compared to $30 million for the same quarter last year. The increase was driven by a higher average debt outstanding as a result of the purchase of the San Joaquin facilities, and lower capitalized interest, as assets such as McLymont were brought into service. This was partially offset by lower overall interest rates.

Depreciation and amortization was $66 million in the second quarter of 2016, compared to $50 million in the second quarter last year. This increase was mainly due to the acquisition of the San Joaquin facilities and new assets placed into service.

For the second quarter of 2016, income tax expense was $4 million, compared to $10 million in the second quarter of 2015. The decrease was mainly due to the absence of a one-time non-cash $14 million charge in the second quarter of 2015 relating to the 2% increase in the Alberta corporate income tax rate, partially offset by higher earnings in the second quarter of 2016. On a full-year basis, we expect the effective tax rate to be in the 20% or 25% range.

Net invested capital in second-quarter 2016 was $282 million, compared to $149 million in second-quarter 2015. Investment and property plant and equipment increased, mainly due to construction costs for the Townsend facility and related infrastructure, as well as the $150 million investment in Petrogas preferred shares.

With the Townsend projects largely complete and under budget, we have incurred at this point, halfway through 2016 a significant portion of total expected annual capital expenditures for the year. Much of the remaining growth capital expenditures in 2016 are in fact discretionary, and AltaGas has the flexibility to adjust the pace of spending at its option.

AltaGas` balance sheet is in a strong position and fully funded for 2016. At the end of the second quarter, debt to total capital was 45%, down from 48% in the first quarter of 2016. This remains well below our bank and term note covenant levels of 65% to 70%. Also, we've got approximately $1.4 billion available on our credit facilities, and we continue to have very strong access to multiple sources of funding. During the quarter, we completed a very successful 10-year $350 million MTN note offering at an attractive coupon of 4.12%. Last month, we completed a $440 million common share offering, which was very well received by the market. These financings were forward-looking in nature, as we continue to see strong momentum in our development program, with plans to construct several new infrastructure projects between now and the end of 2017.

The strength and stability of our funds from operations is what drives our business and provides strong security in our dividend. AltaGas has one of the lower dividend payout ratios, based on cash flow in its peer group. To put this in perspective, even with the recent increase in our annual dividend to $2.10 per share, cash flow from regulated utilities, and the Northwest Hydro projects alone, more than covers actual cash dividends paid after factoring in a dividend reinvestment plan. That means that cash flow from all the other assets within AltaGas can be directed to other investment opportunities.

Turning to the 2016 outlook, it's largely consistent with what we communicated last quarter.

The power assets are expected to contribute the majority of the 20% growth in total normalized EBITDA, year over year. Approximately 42% of total 2016 expected EBITDA will come from power, driven primarily by full-year contribution from San Joaquin, and a full year from the McLymont Hydro facility after its fourth-quarter 2015 startup.

We now only have 65 MW of exposure to the Alberta power market that is about 4% of our total generation. And Alberta power price exposure for the remainder of 2016 is hedged, resulting in zero variability to Alberta power pool prices.

Utilities are expected to see a small increase in normalized EBITDA compared to 2015, and are expected to account for 36% of overall 2016 normalized EBITDA. This is driven by rate-base and customer growth, including SEMCO Gas which will benefit from a full-year contribution from its Main Replacement Program (MRP). Also in June 2016, ENSTAR filed its 2016 rate case, requesting an interim and refundable annual rate increase of approximate US$5 million on an annualized basis, effective August of this year with final rates to be set for third quarter of 2017. On July 18 of this week, the Alaska Public Utilities Commission approved the interim and refundable rates.

Earnings at all the other utilities, except PNG are affected by weather in their franchise areas with colder weather generally benefiting earnings. Approximately 3/4 of AltaGas utility customers are in the U.S., and our U.S.-based utilities benefited from a favorable US dollar exchange rate. Offsetting these factors, however, Heritage Gas is looking to adjust its regulated distribution rates for certain commercial customers to remain competitive. Interim approval was granted by the regulator in March of this year with the revised rates. If they are approved this quarter, it will reduce Heritage's normalized EBITDA by approximately $4 million this year.

Finally, gas midstream is expected to account for approximately 22% of 2016 normalized EBITDA. Compared to 2015 the gas segment is expected to see a small decline in EBITDA. Our new Townsend facility is expected to add $20 million to EBITDA in 2016. Other positive drivers include the absence of turnarounds at Harmattan and Younger, as well as improved performance from Petrogas. Year-over-year gains, however, are more than offset by lower contributions from commodity prices as a result of higher hedging gains achieved in 2015. Sale of the Tidewater gas assets earlier this year, and approximately 5% decline in processing volumes at non-core gas facilities. Approximately 2/3 of 2016 gas EBITDA is underpinned by take-or-pay and cost to service contracts with no direct price or volume exposure. We've had no material impacts on midstream counterparty exposure year to date, continuing on the positive experience from last year.

I will point out in the second quarter of 2016; a small five-day turnaround at Gordondale was completed, which brought volumes down slightly.
But overall for 2016, full-year volumes are expected to average approximately 90 to 100 mmcf/d at Gordondale. This could potentially increase also, depending on Birchcliff's development plans for the area, once the Encana acquisition closes next week.

Gordondale will be the most efficient deep-cut facility within the Birchcliff focus area with significant expansion capability. The take-or-pay provisions under the contract are based on cumulative production. We anticipate Birchcliff will reach its cumulative production in and around 2020, subject to their planned rate of area developments, that's potentially subject to change, but will depend on how that unfolds over time. After that, we are confident that the Gordondale facility will continue to serve as an important element of Birchcliff's midstream strategy.

Over the last few months, frac prices have strengthened to roughly $11 a barrel spot pricing this past quarter, versus $3 a barrel last year. Therefore, we reduced the amount of liquids being reinjected. Recall that AltaGas produces up to approximately 60,000 barrels a day of natural gas liquids, but only up to a maximum of about 10,000 b/d of that can be exposed to frac spread pricing, with a balance having various different contractual arrangements. Based on our current forecast of prices, we expect to increase the amount of extraction volumes exposed to frac spreads, up to about 7,000 barrels a day for the remainder of this year. As frac spreads recover, AltaGas is well positioned to deliver additional normalized EBITDA growth, as we can continue to increase the production of exposed natural gas liquids. However, that is not built into our 2016 expectations. During second-quarter 2016, AltaGas hedged about 500 barrels a day of NGL volumes, an average price of $19 per barrel. And just again, from a sensitivity standpoint, note that every plus or minus $1 a barrel change in frac spread impacts are 2016 EBITDA by about $1 million.

Turning to 2016 capital expenditures, we now expect to spend about $600 million to $650 million. The remaining amount to be spent on the second half of the year is approximately $300 million and it's mainly discretionary. We have tightened that range to reflect a near completion of the Townsend midstream complex overall. And this range also includes some additional capital for the RTI export project later this year, and also reflects the recently re-started construction of the Alton Natural Gas Storage project in Nova Scotia. Maintenance Capital for gas and power in 2016 is expected to be less than $40 million, and we expect approximately $290 million for depreciation, amortization and accretion expense in 2016.

Approximately 50% of our total 2016 EBITDA will come from the U.S., and reflects our diversified business platform across our three major energy infrastructure business lines. For every plus or minus 5% change in FX rates, the annual impact of 2016 EBITDA is about $14 million.

Looking a little further out at 2017, we are forecasting moderate growth in overall normalized EBITDA compared to 2016, mainly driven by the gas segments. We expect power and utilities results to remain fairly consistent with 2016, although utilities will benefit should weather return to a more normalized state, relative to what we experienced this past winter. The gas segment will benefit from a full-year Townsend. And we expect moderate strengthening of frac spreads in 2017.

However, partially offsetting this will be the sale of the Ethylene Delivery Systems and the Joffre Feedstock Pipeline back to Nova Chemicals. Recall that this was first announced back in the first quarter of 2014, when Nova Chemicals exercised the option to purchase these assets. While proceeds are expected to be approximately $67 million, EBITDA will be impacted by approximately $10 million. Also, the Edmonton Ethane Extraction Plant and Gordondale are both expected to undergo normally-scheduled turnarounds in 2017, which will impact EBITDA by approximately $7 million. A full year of cost savings from the recently completed restructuring, and from other efficiency initiatives, should also be reflected in 2017.

On the development front, as you've already heard, we expect to advance a number of exciting new projects in 2017, with targeted in-service dates in early 2018. In summary, we just completed a record second quarter for AltaGas, and we remain on track for record-level performance through the remainder of the year. We continue to expect to deliver approximately 20% growth normalized EBITDA, and up to approximately 15% growth in normalized funds from operations for this year. In 2017, we expect moderate growth absent any acquisitions, with a number of key investments occurring in 2017 to set the stage for significant further growth beginning in early 2018.

AltaGas will continue to pursue growth across all three of its diversified energy infrastructure businesses, while ensuring financial strength and flexibility. Supporting this is our attractive dividend, which is currently yielding in excess of 6%, and which is underpinned and fully covered on a cash basis by AltaGas' most stable businesses, its regulated utilities and its long-term contracted hydro generation. With that, I will turn the call back over to Jess.

Jess Nieukerk - AltaGas Ltd. – *Senior Director Investor Relations*

Operator, we will now open the lines for question and answer.

QUESTION AND ANSWER

Operator

(Operator instructions)

The first question is from Linda Ezergailis TD Securities.

Linda Ezergailis - TD Securities - *Analyst*

Congratulations on a strong quarter.

I'm just wondering with respect to the $40 million of capital cost savings at Townsend, how much of that benefits AltaGas versus Painted Pony? And can you maybe describe the nature of the efficiencies that you found in construction, and how that might translate into some of your other projects?

David Harris - AltaGas Ltd. - *President & CEO*

This is David Harris.

The sharing is roughly 50/50, we've got a great alliance and partnership with Painted Pony, so we want to look forward to keeping that going, so it's a balance split.

And then the efficiency, really, just comes from where we’ve bridged off from the Northwest projects. We certainly have our own construction capability, probably; I think the only midstreamer out there in Western Canada has our own construction arm.

So, a lot of that value came from direct sales performing, lowering our direct costs, executing, eliminating G&A and overhead and profits from companies you'd normally have to go to, and we're seeing the weight of that come to bear on lowering our cost to construct and passing that value back to the producers

Linda Ezergailis - TD Securities - *Analyst*

And you're seeing that potential in North Pine and other projects as well?

David Harris - AltaGas Ltd. - *President & CEO*

Absolutely, we are. We will expand that same philosophy across all our construction activities within the Company.

Linda Ezergailis - TD Securities - *Analyst*

You mentioned that North Pine is currently under review, but when might you get a sense of the extent of that for all of your projects?

David Harris - AltaGas Ltd. - *President & CEO*

Well we're fairly well down that curb now, but there is a few other things we're looking to do with optimization, and we'll have a good point for the market as we get into October on our call.

Linda Ezergailis - TD Securities - *Analyst*

Thank you.

And just as a follow-up question on your Petrogas preferred share investment, can you describe what were the conversion rates, and also whether Idemitsu co-invested in Petrogas as well, and an update on your partnership with them?

Tim Watson - AltaGas Ltd. - *EVP & CFO*

I guess I can't say whether they did or didn't. Specifically, it was essentially a private placement into a private company. Standard conversion futures, as you would probably be accustomed to in the public convertible preferable market.

Linda Ezergailis - TD Securities *- Analyst*

How much would that change your ownership potentially, can you comment on that, and whether there might be future investment opportunities to further increase?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

Again, I'm not going to throw out a specific number. We said its $150 million, I think historically, you know, sort of what we have invested in the Company from an equity perspective, so you can just do some rough math to get some sense, I think.

That's directionally going to be sufficient probably to give you a sense of the materiality of this investment, and should it convert what that would mean. But I would say it's -- Petrogas is an investment with three major shareholders, so we are all working well together and continue to be engaged shareholders in the Company.

Linda Ezergailis - TD Securities *- Analyst*

Thank you.

Operator

The following question is from David Galison, Canaccord Genuity.

David Galison - Canaccord Genuity *- Analyst*

Good morning, everyone. First question is just on the Gordondale facility.

With the take-or-pay commitment, were there any volume requirements or limits around the take-or-pay provisions? A total volume is what I'm referring to.

Tim Watson - AltaGas Ltd. *- EVP & CFO*

There is a total volume associated with the contracts, so that was originally established at the outset when we entered into the arrangements with Encana. I can't give you specifics because it is privy to a contract between two parties. We don't normally disclose specific contract terms, but it is a contract that ought to give you some sense for what the time frame is based on our expectations of how the area gets developed.

But again, that's going to be very much subject to how Birchcliff goes about the Gordondale area going forward. We do get the sense that they -- I mean, this is the biggest deal that Birchcliff has done in the history of the Company.

Obviously, that deal is very well supported by the market, and it sounds like a very good story, and it sounds like they are quite committed to justifying the price payed and are going to set out on an interesting development program. So we're keen to see how that unfolds.

David Galison - Canaccord Genuity *- Analyst*

The second question -- can you give a bit more color on the normalized FFO guidance of 15%? With the additional dividends that you're going to receive from the increased investment in Petrogas, shouldn't that increase a little bit or is there something else that was behind that?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

We said that in Q1 and we repeated it word for word in Q2 that, from an FFO perspective, our expectations are up to 15% year over year. And so those words are chosen quite carefully.

And that the Petrogas -- we are running a business the size of AltaGas overall and this investment is not overly material. The dividends of whatever $6 million a year, whatever that come out of that, investments are going to swing one way or another. But it is within the guidance of up to approximately 15% year over year.

David Galison - Canaccord Genuity *- Analyst*

And then just one question on the Townsend facility. You've mentioned that you're going to do a roughly about $20 million in normalized EBITDA in 2016. Once that is up and fully running, can you give a sense of what normalized EBITDA could be generated from there?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

In very rough terms you can double it, roughly. It might be a little bit over $40 million, maybe. But it is in that order of magnitude.

David Galison - Canaccord Genuity *- Analyst*

Thank you very much. That's all I had.

Operator

The following question is from Patrick Kenny from National Bank Financial.

Patrick Kenny - National Bank Financial *- Analyst*

Good morning, guys.

Maybe first just back on Gordondale and transitioning here to Birchcliff. I just wondered if you were open to renegotiating the current take-or-pay contract in exchange for an extension of the term beyond 2020, or perhaps to underpin a construction of phase two?

David Harris - AltaGas Ltd. *- President & CEO*

This is David Harris.

We will certainly, once the deal closes, look to have a dialogue with Birchcliff. We will be open to any number of options that add value to the Company and the shareholder.

We certainly view Gordondale as a core asset. As Tim mentioned, it is prolific in a sense, it's the most efficient facility within the area and we are certainly looking to continue to provide good services out of that facility.

I think the other thing that is worth noting too is our chairman and their CEO have been very good friends for well over two decades, so I think there's a good relationship all the way from the top down there. So we'll certainly look to leverage that as we get into discussions with them post close.

Patrick Kenny - National Bank Financial *- Analyst*

Okay, thanks, David.

Maybe just on Blythe and Blythe II, can you remind us what the construction period looks like for Blythe II Sonoran? And I'm just wondering if the recontracting of Blythe I is not directly competing now with Sonoran and for the upcoming RFPs, and if so, can you comment on where Sonoran might be on the cost curve relative to extending the existing Blythe PPA?

David Harris - AltaGas Ltd. *- President & CEO*

I will start and then I'll turn it over to my esteemed colleague, John O'Brien, who's with us. But from construction, we would expect somewhere in the neighborhood when we get into at the time we decide we get into it on Blythe II, it'll probably be somewhere in the 30-month range, give or take, depending on what we actually end up deploying for technology there.

And then as it relates to the competing side of that, I will turn it over to John, he's right next to me.

John O'Brien - AltaGas Ltd. *- President AltaGas Services US*

I think as David noted in his comments, we are watching California obviously very closely, and you watch it day to day. There is a continued need for flexible assets.

So for steel in the ground at Blythe I, that is an asset that we believe will be important post 2020. Either on a recontracted basis with Edison or others. So, we pursued Blythe I that way, and it is some of the outage work we have done for Blythe to make sure it is as flexible as possible. So that we can optimize that asset in the current market and beyond. We feel good about Blythe.

On Blythe II or Sonoran, we will begin the -- we've worked very well with the CEC, we have the hearing process beginning here in the fall on our permit request to amend the existing permit on Blythe II. So as we look to Blythe II, we'll know where we are on that amendment by the end of the year, under the CEC process. Between having an interconnection there for 500 megawatts and the good work we have done with the CEC, we believe that that site is, again, a very good site in light of California.

As we look at both of them, we think both of them are -- both sides are marketable. Either within California or, again, from a transmission standpoint where we are in that area, you definitely can look beyond the state borders, into Arizona and Nevada and elsewhere. So, we continue to be pretty optimistic about both sites.

Patrick Kenny - National Bank Financial *- Analyst*

Just one last question. You set a debt cap at quarter end, and I'm just wondering is that the key metric for us to watch out here for as your – some of your larger unsecured projects start to take off. Or should we be tracking debt to EBITDA or another metric as your target capital structure going forward?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

We're looking at all of the key ones as you would expect. It really depends on what specific -- what your specific perspective is. From a bank covenant perspective, our most significant covenant is debt to capitalization.

And similarly for the other form of debt that we raise in our capital structure, which is medium-term notes, it's the same thing, it is debt to capitalization. And I actually indicated that those covenants are in the 65% and 70% levels.

In terms of credit ratings, they look at all the key measures. As you are probably aware, S&P does focus generally within the energy infrastructure space on FFO or funds from operations to debt. So that's another key one that we focus on and will continue to.

Patrick Kenny - National Bank Financial *- Analyst*

And can you just remind us what your target metrics are on those -- the debt to EBITDA and FFO to debt?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

In terms of FFO to debt, we are looking to get it into the 15% range. We are a little bit below although over the past five years we have been in the 10% to 15% range, depending on the year and where we're at. We want to be at the higher end of that range, for sure.

That is a target not just for this year, but into next year. So, really, I look at that between now and the end of 2017. That is where I would like to be at the higher end of that range.

On debt to cap, which is the most other relevant metric I mentioned -- I don't have a specific target, but, again, if you look at our investor slides, you can see historically where we've been, we've probably been in the high 40% range, up to the mid-50% range. Right now we're in the middle of that range, so around 50%, as I said before.

So we have got plenty of capacity there, but we don't need to take it any higher than that, really, the way we run our business and the way we manage our balance sheet.

Patrick Kenny - National Bank Financial *- Analyst*

Thanks, guys.

Operator

The following question is from Robert Kwan from RBC Capital Markets.

Robert Kwan - RBC Capital Markets *- Analyst*

Just on the $600 million and $650 million gross capital plan guidance, how are you treating the $150 million Petrogas investment? Is that in that number or is that outside of that?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

No, that would be outside that number. That is more of what I call investments as opposed to a PPE.

Robert Kwan - RBC Capital Markets *– Analyst*

I guess if you look at the $150 million, and then you look at some of these unsecured projects, if they come to fruition, I'm trying to look at that FFO to debt, the rating agencies; does the Petrogas investment bring an incremental funding obligation in your mind?

And with respect to the unsecured investments, is there the ability to actually move forward with them without them triggering some sort of additional equity funding need from a rating agency perspective?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

I think we talked about this before in the last quarter. Any specific project does not trigger anything.

We looked through the project queue, the timing of the project queue, and we prioritize accordingly. We balance that with other initiatives in the Company on a day-to-day basis, whether it is the capital efficiencies David talked about, the cost efficiencies that we've started to implement this past quarter and will continue to. Non-core sales, which we did in the first quarter and are prepared to consider if merited on other potential non-core assets, if we so chose.

So, an FFO to debt is not hinged on a specific project or asset. As I said on the last call, we will move that ratio higher over the next 18 months. Simple as that.

Robert Kwan - RBC Capital Markets *- Analyst*

I guess where I'm going a little bit is as you look at the investment you made, and those unsecured projects if you get them, it is not a liquidity issue by any stretch. I'm just wondering as part of your discussions with S&P, do you think you can get to where S&P wants you to be on top of what the drift is going to bring in, or do you need to bring additional equity funding, whether that be hybrids of some sort, asset sales or something else?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

I think the way we look at individual projects, we actually see them as being accretive to that ratio. So, whether it is individual organic projects, or even acquisitions, we actually see those as being accretive to that ratio, and that helps us manage it.

Robert Kwan - RBC Capital Markets *- Analyst*

Okay, understood.

Dave, just in your prepared remarks you talked about the Astomos agreement for Ridley, and I think the quote was that it was enough to move you towards FID. I don't know if I'm trying to pick between words. If that contract comes through based on the expected costs that you are seeing for the Ridley terminal, is that enough to get you an FID decision or is there a need to get additional contracting?

David Harris - AltaGas Ltd. *- President & CEO*

From the standpoint of off take, it is probably sufficient to move us towards an FID decision. With maybe a little bit of trimming up on top of that. In addition to that, we'd be looking for producers to come on and to balance the product and bring it in for the 20,000 barrels a day. So, from an off take standpoint, yes, and now we just still have a little bit of work to do with respect to securing product with the producers.

Robert Kwan - RBC Capital Markets *- Analyst*

And if I could just finish here on the power side, as you look in Pomona, I'm just wondering, was there any discussion with SCE around a short-term contract there and, if not, why not or what was their pushback on doing something given as you were highlighting the incremental power needs that we're seeing?

David Harris - AltaGas Ltd. *- President & CEO*

We have had good conversations with Edison around Pomona. And we will continue to. I think as they look at it they have some RFPs and so forth for renewables. But they also are looking at their transmission and distribution system right now, but we will continue those conversations with Edison.

The other thing of interest on Pomona that is pretty clear is that as it is directly in that Los Angeles load basin, we definitely look at that, A, from the existing facility, and what we can do. B, we do have the permit in to put an LMS100 in there a more modern quicker start unit than we expect to move through that permitting process fairly quickly. And then, C, as we look at the storage targets that each of the utilities have out there, Pomona is ideally situated for battery storage as well.

We have the continued conversations with SCE and others on Pomona. And I would say it is broader than just the existing facility it is looking to the modernization of the facility, or the facility used as storage.

Robert Kwan - RBC Capital Markets *- Analyst*

Location-wise, it is nicely in a load pocket. I'm just wondering, do they not need the power right now though? Is there hesitation on extending even a short-term contract?

David Harris - AltaGas Ltd. *- President & CEO*

You'd probably have to ask them on exactly what they need. Sometimes they keep us a little at bay in terms of telling us specifically what they need.

We continue to firmly believe it is there in the load pocket. It has certainly been called upon for a few days, when they had some heat down there recently, so we certainly continue to think it is needed, and continue to optimize that site.

Robert Kwan - RBC Capital Markets *- Analyst*

Thank you very much.

Operator

The following question is from Robert Catellier from CIBC World Markets.

Robert Catellier - CIBC World Markets *- Analyst*

Good morning, everybody. Congratulations on getting the Townsend facility in service on time and on budget. Actually, earlier on both those counts.

I just have a few follow-up questions here, specifically on Petrogas. Can you clarify if the preferred share investment is a structuring transaction, or if this is new money available for Petrogas to invest, and where they might put it?

Tim Watson - AltaGas Ltd. ***- EVP & CFO***

It's an investment we've made. $150 million in preferreds, which will, in the immediate sense, go to reduce their debt. But in the broader sense will be used to continue to support their growth plans.

As we have said, Petrogas has undertaken various growth initiatives, in North America building up storage of terminals in the past 12-24 months, and they've actually got more in the queue. Ultimately, it is a growth investment for them.

Robert Catellier - CIBC World Markets ***- Analyst***

Something caught my attention when David Harris was discussing the Ridley Island terminal. I think you said something along the lines of this provides access to premium markets for producers with minor contractual commitments versus other options.

Can you just elaborate on that a little bit? What sort of contract structure you might have there that relieves, or provides a better option versus some of the other options liquids producers might have?

David Harris - AltaGas Ltd. ***- President & CEO***

The contractual agreements will be looking into producers would be on a net-back basis. Turns around and opens up their opportunity more than just the western Canadian type of market.

But people talk about Asia as long as there are multiple markets within Asia. As it relates to contractual commitments compared to the diversification it gives you, it is a significant upside for them.

Robert Catellier - CIBC World Markets ***- Analyst***

So your contractual requirements are not any lower, it's just the relative upside versus contractual commitments is better?

David Harris - AltaGas Ltd. ***- President & CEO***

Yes, fair enough. Other than we had -- we are open to, as I also hinted at, sharing value with across on the value chain to make it a better proposition for them. Other than just a one-dimensional play for a direct arrangement for Western Canada.

Robert Catellier - CIBC World Markets ***- Analyst***

On the power side, you mentioned power storage at each of Pomona and Blythe. I'm wondering if these are requirements for recontracting or if you see these as incremental growth opportunities, and if you can quantify what type of financial investment would be required for those?

David Harris - AltaGas Ltd. ***- President & CEO***

Nothing would indicate right now that there'd be a requirement for recontracting, it is just added optionality and flexibility that we can bring to bear with those assets, as John alluded to. All our assets in California have a tremendous amount of flexibility with respect to diversification of product line.

And as it relates to a cost, battery out of the gate is not necessarily a significant cost. They are relatively low to moderate investments. It is more with filling a niche, and being a cooperative partner with the market and the utilities as they want to contract those types of opportunities.

John O'Brien - AltaGas Ltd. ***- President AltaGas Services US***

I think on the specific storage, as an example, it is not a big capital cost. It's making sure that you have the appropriate warranties and so forth for the batteries. So that you can meet any commitments in an RFP.

But certainly, each of the California utilities now is under these target. Research requirements that are a matter of policy from the PUC.
As we look at our sites, that is an example where you already have interconnection rights for a certain number of megawatts, depending on the site that we have the ability to do at a relatively low capital cost, we have the ability to meet requirements under those impending RFPs for storage.
That would be an example where we can optimize each of these sites, not just Blythe and Pomona, but also the GWF sites as well.

Tim Watson - AltaGas Ltd. ***- EVP & CFO***

One other quick comment.

John talked about the Pomona and some of the different configurations that could go on there, including the storage. Storage in that case would not be mutually exclusive with the other tracks that we're currently pursuing, and are talking about at Pomona, the repowering of that facility and applying different technology to it. They are not mutually exclusive at all.

John O'Brien - AltaGas Ltd. - ***President AltaGas Services US***

Pomona is a classic example. One last thing, the third piece of Pomona, which we will certainly look at is Pomona today, even pre putting new technology, there are things that we are in the process of evaluating to change, for instance, the start time, to make it a quicker start time. So, there are certain things that you can do and will do, depending on the economics to make those sites more valuable.

Robert Catellier - CIBC World Markets ***- Analyst***

That is helpful color.

And then finally my last question is on Gordondale. I know their deal is not closed and you talked a bit about what you view as encouraging development potential as the asset moves from Encana to Birchcliff. But, at the same time, Birchcliff has a history of owning their own infrastructure.
Can you maybe provide a little bit of coloring on your perspective on how the advantage you have with Gordondale already being in service versus Birchcliff's desire historically to own their own infrastructure and how that might play into the future of Gordondale?

David Harris - AltaGas Ltd. ***- President & CEO***

Again, Robert, I will just reiterate, it's a core asset of ours, and we are looking to not only expand upon it, but continue to provide good service. I think it is a little premature until they close the deal and we get into discussions with Birchcliff, but we certainly have great relationships at the top between the chairman and the CEO.

And we think we are well-positioned and well-situated both with our operations expertise and delivering certainty around execution that we're looking is to continue to be a strong core asset, now and in the future. More to come after the deal closes and we get into conversations and maybe get a little bit more color when we get into the October call.

Operator

(Operator Instructions)
The next question is from Steven Paget from First Energy Capital.

Steven Paget - FirstEnergy Capital ***- Analyst***

On Townsend, is it correct to assume that capital lease payments to AltaGas will be $10 million per year lower than previously estimated due to realized capital efficiencies and an extended amortization period?

Tim Watson - AltaGas Ltd. ***- EVP & CFO***

I don't think so. I can't quote you exactly what was previously estimated.

That number of -- we said $20 million for the balance of this year, and double that, call it $40 million to $45 million next year. That would be represented from what we would expect for that type of plants, that size of plants in that area. I don't think there is any change on that.

Steven Paget - FirstEnergy Capital *- Analyst*

With half the year complete, should we continue to assume that the Northwest Hydro Electric projects generate a run rate of $100 million a year in EBITDA? And how much EBITDA do you expect them to generate this year?

Jess Nieukerk - AltaGas Ltd. *– Senior Director Investor Relations*

Steven, Jess here. The range I think most people are more around the three projects are probably more around $110 million or $120 million.

Steven Paget - FirstEnergy Capital *– Analyst*

Thank you, Jess. Those are my questions.

Operator

The following question is from Ben Pham from BMO.

Ben Pham - BMO Capital Markets *– Analyst*

My first question is on your dividend and perhaps your future expectations ahead through 2020. In your prepared remarks, Tim, you mentioned the support for the dividend were expected -- the BC hydro project and Townsend in there.

I'm wondering, in terms of how you think about moving the dividend going forward, is that perhaps based more on your contracted businesses that are assets rather than maybe less of an FFO that if you can't recontract on California that drops off that overall bucket?

Tim Watson - AltaGas Ltd. *- EVP & CFO*

Not at all. I was just trying to give a different way of looking at it. To be clear, what I said was that the regulated utilities or the 5 regulated gas distribution utilities, as well as just our Northwest Hydro projects, not Townsend or anything else in B.C.. I use those, because they're arguably the longest term contracts that we have in the Company.

Those themselves amply cover the dividend going forward here. It is just a different way of thinking about it.

We ultimately do look at FFO and cash generation, and that is what we show on our investor slides, that's where we benchmark ourselves versus others. And as we see our FFO grow over time, we think that bodes well for the dividend.

Ben Pham - BMO Capital Markets *- Analyst*

Thanks for clarifying that.

I wanted to switch over to Ridley. Is that FID coming in a little bit later than you expected?

David Harris - AltaGas Ltd. *- President & CEO*

I'm sorry, Ben, I didn't not mean to interrupt you. No, we've always expected the second half of the year, and as you work through the environmental permit process, we've got great relations with the First Nations and stuff like that. We always expect timing to be a little bit bumpy, but we've always suggested the second half of the year, so we are happy and pleased with our progress and we're tracking through that.

Ben Pham - BMO Capital Markets *- Analyst*

And then on your guidance on the EBITDA multiple 8 to 10 times and everything in your recent presentation, is that based on that 50% contracts plus sum and the rest spot, or is that some other assumption that is driving those spreads there?

Tim Watson - AltaGas Ltd. ***- EVP & CFO***

It is based on ultimately having full off take there, and given the very discussions we have, we have growing visibility in terms of what to expect of the other 50%. And we have done a lot of work now in terms of the costing of the project, and that is down to refinements over the third quarter of this year. So, those are two of the key components.

At the end of the day, we think about what is the value to investors, so we have got expected fees to match our expected returns. When you factor those in, how does that create value for the producers who are supplying the facility. And that is how we think about it. In general terms, I guess.

Ben Pham - BMO Capital Markets ***- Analyst***

Just a cleanup on the power side. In your discussions with the California utilities and maybe some of the utilities out west, are you hearing more potential of initiatives maybe for the utilities to want to build the power facilities themselves and put them in rate-based instead? We've seen a bit of that occur outside of the western US side.

John O'Brien - AltaGas Ltd. ***- President AltaGas Services US***

We are not hearing that right now. The California market is extremely dynamic in terms of all the policy goals that the facilities are attached with meeting. Each entity will have a different strategy of how they can meet that, but we are not hearing that that much in the West.

Ben Pham - BMO Capital Markets ***- Analyst***

Thank you.

Operator

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

Jess Nieukerk - AltaGas Ltd. ***– Senior Director Investor Relations***

Thank you, operator. Thank you, everyone for joining us today. As always, Ashley and myself are available for any follow-up questions you may have.

Operator

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