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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the AltaGas' Third Quarter 2019 Financial Results Conference Call.

(Operator Instructions) As a reminder, this conference call is being broadcasted live on the Internet and recorded.

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

Adam McKnight - AltaGas Ltd. - Director of IR

Thanks, Julianne. Good morning, everyone, and thank you for joining us for the AltaGas Third Quarter 2019 Financial Results Conference Call. Speaking on the call this morning will be Randy Crawford, President and Chief Executive Officer; and James Harbilas, Executive Vice President and Chief Financial Officer. We're also joined here this morning by several additional members of our executive team. As always, today's prepared remarks will be followed by an analyst question-and-answer period. I'll remind everyone that the Investor Relations team will be available after the call for any follow-up questions or any detailed modeling questions that you might have. A replay of the call will be available later today, and a transcript will be posted to the website shortly thereafter.

I'd like to point out that we have a slight change in the format for today's call. Presentation slides have been made available and can be accessed through our Events and Presentations web page. However, the prepared remarks will not follow directly along with the slides provided.

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

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

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

Thank you, Adam, and good morning, everyone. It is my pleasure to welcome you to our 2019 third quarter results call. As we move through our third quarter, we continue to execute against our near-term operational and financial priorities, the success of which I will touch on throughout my prepared remarks. Our Utilities and Midstream groups delivered solid operational results this quarter. However, given the number of moving parts, I thought it was important to begin this call by providing appropriate context around our third quarter. As you can see from our financials, we recorded normalized EBITDA of $178 million compared to $226 million in the prior year. On the surface, that obviously shows a steep decline in EBITDA. As you're well aware, we've been very successful in monetizing assets to de-lever the company, which has corresponding impact on lost EBITDA. The lost EBITDA due to asset sales in Q3 was $93 million. This quarter, we also recorded a onetime adjustment of $30 million related to the hearing examiner's report in Virginia due to an adjustment of the TCJA liability, which includes a change in excess deferrals amortization period, reduction in allowed ROE and a disallowance of capital associated with our DIMP program. When I look at the underlying performance of our base business, removing these impacts, our normalized EBITDA grew by $75 million quarter-over-quarter to $178 million. For more information on this, you can refer to our slide deck posted on our website. This impact flows through the normalized funds from operations, or FFO, which were $67 million compared to $117 million in the third quarter of 2018. Excluding the impact of the Virginia hearing examiner's report and lost FFO from asset sales, FFO would've increased by approximately $39 million for the quarter as compared to the same quarter last year. Material component of our near-term priorities is our asset sale program. In Q3, we exceeded our asset sales target of $1.5 billion to $2 billion with the announcement for the sale of the Central Penn Pipeline. We have now announced or completed approximately $2.2 billion in asset sales in 2019, with funds being used to de-lever our balance sheet and fund organic growth.

In addition to this, subsequent to the quarter end, ACI announced it had entered into a definitive agreement for the acquisition of ACI in an all-cash transaction for $33.50 per share, which if approved by shareholders, would generate proceeds of $370 million to AltaGas. Normalized net loss was $58 million, $0.21 per share for the quarter compared to normalized net loss of $17 million, $0.07 per share for the same quarter in 2018. Factors negatively impacting normalized net loss included lower income tax recovery and the same previously referenced factors impacting normalized EBITDA, partially offset by lower interest expense and lower depreciation and amortization expense.

Digging slightly deeper into our segments. Our midstream segment reported very strong Q3 results, with EBITDA up almost 100% over the same period in 2018. Our energy export strategy was a significant contributor to the quarter, with strong volumes at both RIPET and at Ferndale from our equity investment in Petrogas. Results in our base Midstream business remains strong, and we are seeing healthy volumes at our plants. This is a direct result of the work we have done with respect to our Northeast B.C. and energy export strategies that have created integrated value chain, connecting our customers from wellhead to export markets in Asia. This quarter represented our first full quarter of RIPET, the cornerstone asset of our Canadian Midstream strategy. RIPET generated approximately $37 million in EBITDA in the third quarter, was slightly greater than 3 million barrels or 6 ships of propane exported to Asia. Third quarter EBITDA from RIPET benefited from a higher average FEI to Mt. Belvieu hedge rate of US$14 per barrel that included second quarter's supply hedges that were rolled forward to the third quarter. The resulting impact to third quarter EBITDA is a one-time benefit of approximately $5 million.

Overall, we are pleased with the performance of the facility to date. Volumes have steadily increased to it's current 40,000 barrel per day capacity, and we continue to improve operational efficiencies. The third quarter at our Utilities was similar to the second quarter where we saw a decline in earnings, driven by the warmer weather experienced in the summer months. This seasonality in our earnings is expected and consistent with historical results. Overall, at the Utilities, we saw a decrease in normalized EBITDA as compared to last year. This is largely attributed to the Hearing Examiner's report in the Virginia rate case, the impact of the ACI IPO, higher operating expenses, partially offset by higher revenues from a full quarter of WGL ownership and the impact of the stronger U.S. dollar.

One final word on the Virginia Hearing Examiner's report. We were disappointed with the recommendations, and we have filed a rebuttal, appealing certain aspects of the Hearing Examiner's report on October 21 and are hopeful a final order will be issued in late 2019 or early first quarter 2020.

Lastly, the Power segment normalized EBITDA decreased to $70 million, primarily result of asset sales, partially offset by strong contributions from retail marketing as margins widen as expected with the change in PJM capacity pricing that occurred this past June.

Turning to our capital program and balanced funding plan for 2019, we continue to improve our financial flexibility, particularly given the success of our 2019 asset sale program. We remain comfortable with our 2019 funding plan. Our funding plan for 2019 was designed to de-lever and stabilize the balance sheet through a combination of asset sales, disciplined capital allocation and a repositioning of our dividend. The funding plan includes $1.3 billion to $1.36 billion in capital projects where we have a clear line of sight to a significant number of high-quality organic growth opportunities. The slight increase in expected capital compared to the $1.3 billion previously disclosed is primarily due to the timing of the closing of certain asset sales relative to our original budget. We continue to execute on our capital projects both on time and on budget. Year-to-date, we have spent approximately $1.2 billion focused on the expansion of our Midstream value chain with the completion of RIPET and the Nig Creek facility and continued work at the Townsend and North Pine expansions, the Marquette Connector Pipeline and improving safety and reliability of our systems with the accelerated replacement programs at our Utilities. These opportunities reflect the underlying strength of our Utilities and Midstream businesses.

In addition, we have approximately $3 billion in debt repayments plan, which includes $900 million of fixed-term debt maturities with the balance reducing short-term borrowings on our facility. To-date, in 2019, we have already achieved a reduction in net debt of $2.4 billion and expect net debt to decrease further as we close the sale of the Central Penn Pipeline in the fourth quarter. Our investment-grade credit ratings continues to be fundamental to our strategy. As you know, it provides us with greater financial flexibility and a lower cost of capital, which in turn supports growth going forward. We designed our 2019 capital and funding plan with a very clear goal of maintaining an investment-grade credit rating. We expect our capital and funding plan, along with the low risk profile of our overall business mix and a dividend reduction will all contribute to improving investment-grade credit metrics over time.

As we have discussed in the past, we expect our credit profile to improve as we execute our growth capital program and new capital projects enter service. Given the significant progress we've made this year on our balanced funding plan, our focus is shifting towards executing on organic growth opportunities that drive meaningful contributions in 2020 and beyond. Supported by strong operational results in the first 9 months of this year, we are maintaining our guidance range for normalized EBITDA of $1.2 billion to $1.3 billion. The success of our 2019 asset sales program will result in additional EBITDA loss year-over-year in 2020 of approximately $170 million, which we anticipate replacing with investments in our energy export strategy, including a full year of RIPET, increased gas processing volumes from the Nig Creek facility that came on in the fourth quarter of 2019, the Townsend expansion and contributions from the expansion of our North Pine fractionator that are expected to come online in the first quarter of 2020 as well as growth in our Utilities, where we expect to benefit from the investment in the Marquette Connector Pipeline, customer growth as well as improvements in our earned returns from the Maryland settlement announced subsequent to the quarter and new rates at SEMCO, following completion of the rate case.

While we expect to see some growth in EBITDA 2020 over 2019, adjusting for the impact of asset sales, we expect normalized earnings per share growth to outpace EBITDA growth as a result of the significant reduction in debt and the resulting decrease in interest expense. We plan to provide the market a fuller view of 2020 outlook, capital and funding, following the completion of our normal planning cycle later this year.

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

With that, I will turn the call over to Randy to review our progress on our near-term goals, and our next steps as we focus on future growth in our Midstream and Utilities segment.

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

Thank you, James, and good morning, everyone. When I first spoke with you in December, I laid out a plan that would refocus the Company, capture the intrinsic value of our core assets and regain our financial footing, providing us the flexibility to capitalize on the significant investment opportunities ahead of us. I'm pleased to share that we have made tremendous progress against these goals and that, that progress is clearly evident in our Q3 results and accomplishments.

Turning to our near-term priorities. We moved swiftly and decisively in recent months to execute our asset sale program designed to de-lever our balance sheet, fund our capital program and maintain our investment-grade rating. With the announcement of Central Penn asset sale, we have completed or announced $2.2 billion in asset sales to date in 2019, and have exceeded our target of $1.5 billion to $2 billion. Most recently, we announced the sale of the Central Penn Pipeline at the end of September for approximately $870 million or US$657 million, representing a strong multiple of just over 13x, which is accretive to our credit metrics. The proceeds from this transaction will be used to both pay off a portion of our debt, which James addressed, as well as fund profitable growth initiatives in our core businesses.

In addition to the asset sales we have announced to date, I mentioned to you on the last call, we have remaining asset sale liquidity with Mountain Valley Pipeline, ACI and Blythe. With respect to Blythe, I'm pleased to inform you that we have successfully re-contracted this facility with Southern California Edison, a direct result of Blythe's competitive advantage. California Public Utilities Commission approval is required and expected to occur in the first half of 2020. The extension of this agreement preserves the current annualized EBITDA of approximately $40 million through 2023. Also, as you are well aware, and as James mentioned, AltaGas Canada Inc. received an all-cash offer to purchase the Company. We are supportive of unlocking the value we have invested in this asset, and we'll act in the best interest of AltaGas shareholders. Our work over the past several months did not focus on asset sales alone, however, we have been laying the groundwork to implement our operational excellence model throughout our businesses. We expect this model will not only allow us to be more efficient and effective, but we will also expect to drive significant cost savings.

Turning to strategy. We believe that the combination of our higher growth Midstream assets with strong and predictable cash flows of our Utility businesses is the right one. We continue to work on the unique structural advantage we have created with our integrated platform in the Montney, which is underpinned by RIPET and our LPG export strategy. At our Utilities, the rate base growth that we expect, combined with performance-based culture we are implementing and proactive and thoughtful approach to our rate cases, will all contribute to ROE expansion and earnings growth. Looking a little deeper at our Midstream business, we have a unique value proposition and a distinctive competency that centers around our RIPET asset. Our ability to access premium price global markets in Asia, where demand for cleaner-burning fuel sources is increasing, is a competitive advantage that we will build upon. Increasing throughput at our facilities, optimizing our existing rail infrastructure at RIPET to gain scale and efficiencies and honing and growing our export capabilities. Our fundamental assumptions underlying our Midstream strategy is that the marginal molecule of natural gas and natural gas liquids in Canada will need to be exported, not to the U.S. but to Asia. The growing demand for energy in Asia will be a driving force behind our Canadian Midstream business, leveraging our first-mover advantage as the first and only company with the capability to export LPG from Canada to Asia is paramount to attracting more volumes to our system and ultimately, driving growth across our integrated platform.

At RIPET, we saw significant contributions to the business with our first full quarter of operations completed. Volumes have steadily increased to our target capacity. In the quarter, 6 ships were loaded, exporting over 3 million barrels of LPG from RIPET to Asia. This generated approximately $37 million in EBITDA or $11 per barrel. While I'm excited with these results, they were not unexpected due to RIPET's structural advantage and the increasing trading premium that the Far East Index has to Mt. Belvieu.

Now going forward, we expect a continued pricing premium to be maintained due to the structural shipping advantage RIPET has compared to the U.S. and the growing U.S. supply. This pricing premium has certainly benefited us, but it is also materially benefiting our customers, the producers, who have tolling contracts through RIPET as they realize the benefit of the global market premium. Looking forward into the fourth quarter, we expect to sell approximately 40,000 barrels per day to Asia. Through a combination of our tolling volumes and our active merchant hedging program, we have locked in our baseload margin on approximately 85% of our remaining 2019 volumes. For the remaining 15% of barrels, we pay Edmonton prices plus transportation fees and in return, we realize FEI premiums. With only 5 full months of operation, we have made tremendous financial and operational headway. As we continue to improve the efficiencies and logistics surrounding RIPET, we will gradually ramp the volume towards its nameplate capacity. The RIPET Advantage also increases the utilization of our existing processing and fractionation assets and position us for additional investment in the Montney. This value-added approach to our customers is the foundation of our Northeast B.C. growth program, which includes the Nig Creek Gas Plant that we co-own with Black Swan, which came online in September, a quarter earlier than expected as well as expansions at North Pine and Townsend, anticipated to come into service in the first quarter of 2020. This is exactly how our business model is designed, leverage our export strategy to provide higher netbacks to our customers, increase throughput and utilization of our assets, provide more organic growth opportunities and grow our export capabilities. I commend the team for the successful execution of our strategy as it has added significant value to our Midstream business.

At our Utilities, we reported earnings after adjusted for one-time regulatory impacts in asset sales that were essentially flat compared to the third quarter of 2018. The seasonality in our Utility business masked the underlying structural improvements we have made on updating our rates to reflect more current rate base and operating cost levels in 2018. The recent Maryland rate case settlement, our accelerated replacement programs and the pending SEMCO rate case are recent examples of that progress. Where you will see the full impact of these efforts is in the fourth and first quarters due to the seasonal nature associated with the volumetric rate recovery. As we continue to close the gap between our current rates and our allowed return, we expect to improve our return on invested capital -- equity capital by over 200 basis points, which will represent an increase in after-tax earnings of up to US$50 million. Upon achieving these results, we expect an increase in earnings per share of approximately $0.25. This is going to take some time, but I'm confident we are going to get there by the end of 2021. This is one of our greatest financial growth opportunities as the capital has already been invested.

We will accomplish this ROE expansion in the following ways: first, continue to update our rates to reflect our growing rate base and most current cost structure to close the gap in earning our allowed return. Currently, we have active and planned rate cases in 3 of our 5 operating jurisdictions and applications under review for accelerated replacement programs to renew aging infrastructure in the district of Columbia and in Michigan. Maryland is a solid example of our efforts to enhance our returns and foster positive relationships with our regulators, where our recent rate case saw an increase in revenue of US$27 million. We are awaiting a decision at SEMCO, expect it no later than March 2020. And we also anticipate filing a rate case in the district of Columbia in 2020, where we have the largest gap between our earned return and our allowed return.

Secondly, we are enhancing our operational performance, updating aging infrastructure and continually improving our service offering for our Utility customers. This is where our team will be laser-focused for the balance of this year and into next.

Finally, we must aggressively lower our operating costs. The main area of focus is the continued replacement of our aging infrastructure. We will continue to improve our predictive model to identify and prioritize the chronic pipe, create the right plan to address it and ensure we continue maximizing every dollar we spend on repairing and replacing aging pipe across our jurisdiction. When we do this, our costs will come down, bringing up dollars to invest in improving our customer experience. With one of the higher rate base growth rates in the U.S. at 8% to 10%, we have clear sight on ample earnings growth at our Utilities well into the future as we modernize and expand our distribution footprint. We will continue to utilize accelerated rate recovery to ensure the timely recovery of this growth opportunity. This combination of higher overall returns combined with rate base growth presents us with an opportunity to drive significant earnings growth within our Utility businesses into the future. The visible near-term growth opportunities for the Company and the potential for growth I see today exceeds any notion of what we thought even a year ago. Our base business is healthy and performing as it should be. And we remain on track to meet our guidance for 2019 and are well positioned to enter 2020 in a much stronger position.

In the longer term, I believe the strategy I've outlined today will result in consistent and attractive earnings and dividend growth. In our Midstream segment, this includes expanding our integrated value chain with a full year of operations and expanded throughput at RIPET and the Nig Creek facility and increasing gas processing volumes from the Townsend expansion and contributions from the expansion of our North Pine fractionator. At our Utilities, we expect to see significant growth in this segment in the future, driven by projects like our Marquette Connector Pipeline that improves system reliability and supports new customer additions; our accelerated replacement programs, which replaces aging infrastructure and improves the reliability and safety of our systems; and updating our rates and improving our return on invested capital.

In summary, we continue to reposition AltaGas as a low-risk, high-growth Utility and Midstream Company. We have exceeded our asset sale goals target and significantly improved our balance sheet; executed on our Midstream strategy, including successful commissioning of RIPET; and continue to improve our returns at our Utilities through updated rates and accelerated replacement.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Rob Hope from Scotiabank.

Robert Hope - Scotiabank Global Banking and Markets, Research Division - Analyst

Maybe to start off on the Utilities. Appreciate the additional color on Slide 13 of the deck there. It looks like Maryland will give you a nice bump up in kind of income in 2020, but the rest of the items seem to be kind of spread in between 2021 and late 2021. Just want to get a sense of where you think the path to improving the ROEs on the Utilities are? It will be more back-end loaded or kind of more spread evenly through the years?

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

Well, Robert, you highlight the Maryland rate case, which was a real positive and will have a strong contribution in 2020. Clearly, we're focusing on updating our rates in our D.C. rate case. We're focused -- currently, we have an integration team now in place that's laying the foundation to optimize our structure to align the business over time. And so we're aggressively managing our O&M and our leak mitigation. I think you'll see significant progress next year. And so difficult to say that it'll be evenly spread, but I think that overall, I think that we'll probably get half of that through 2020. And then we'll manage the rest through the rest of that year. So -- maybe not smoothly but, overall, targeting the end of 2021.

Robert Hope - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay. Appreciate that color. And then just moving over to the balance sheet. Now you've surpassed your asset sale goal for 2019, which has accelerated some de-levering. Looking forward, what metrics are you targeting? And is the expectation there that you're going to get there through just increasing EBITDA and FFO? Or is asset sales still something that you have a number of processes going on and something that we could see continuing on into 2020?

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

So the goals or the metrics that we've obviously set for ourselves is very closely aligned with what the rating agencies have outlined for goals that we need to achieve to maintain strong investment-grade credit rating. So we have a focus on FFO to debt of above 10%. Going forward, probably in the 10% to 12% range. We feel that we can get there just with organic growth and EBITDA based on some of the assets that are going to be coming online. But we can continue to improve those credit metrics with some of the options that Randy mentioned in his prepared remarks on additional assets that we can monetize. So Power continues to be noncore to us, and Blythe would be available to monetize and take more debt off the balance sheet in 2020. The ACI deal, if approved by shareholders, will close at some point in 2020 that can also help us de-lever. And then MVP, at some point, we'll need to decide what we do with that.

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

Right. And I'll just add to that, that I think we're in an enviable position from the standpoint that we have executed above our target, and then we'll be opportunistic going forward. But I think that's essentially a strong position for us to be and that we can drive it, and as James said, through organic growth and some of the initiatives, and we'll be opportunistic with some of the other asset sale liquidity.

Operator

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

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

So perhaps just tell us -- start with the Utilities, and let's move on to the asset sales quickly. First, with respect to the Utilities, how do you think about the sustainability of some of these cost reductions you talk about, right? So you can reduce costs in one year, but how do you persistently earn at that return? And how do you think about rate lag? And I suppose within that, how do you also think about trackers and some of the pathway that, at least on the electric side that Exelon did via PepCo to be able to enable more concurrent recovery on capital spend. So perhaps, a two-part question there to start with.

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

Sure. I think we've got -- in terms of our accelerated rate recovery infrastructure mechanisms that we have in all of our jurisdictions, clearly provide timely rate recovery going forward. And it has another benefit, as we deploy those dollars through - in replacing the chronic pipe, that provides lower operating cost prospectively into the future, which, again, is sustainable over the long run. And so we think that as we increase the amount of dollars that we put into that recovery mechanism, that will help us with more timely returns. And in terms of -- I think that will address, and I've talked about that on the call, really the regulatory lag aspect of this on a going-forward basis. So I think that we're looking at -- and really, our focus is to execute the cost initiative to capital, but all focused on improving the customer value proposition. And that will lower costs, improve higher reliability, outstanding services. And those are, frankly, the model that we're going to implement that will provide sustainable long-term growth for the utility and ultimately cost reduction. So I think that's the culture that we're driving in our utility.

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

Got it. Excellent. And then quickly, if I can follow up on Blythe. Certainly some interesting updates here, very constructive price data points in the market. Can you talk to some of the pricing that you've been able to confirm on that sale or that asset that you're holding there? And then in tandem with that very quick question, how do you think about '20 volume growth on the RIPET side, just to clarify?

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

Sure. On the asset sale, I mean, on Blythe, I think it's excellent news, as you point out and demonstrates the value of that asset. I don't think it's appropriate right now to comment on any types of valuation or offers that we have had in. But really, we're in, as I said, a flexible position to the extent that the value that we receive, if we ultimately monetize Blythe, is in the shareholders' best interest, we move forward. But we have the option to maintain firm and steady EBITDA with that asset. So it's noncore, but we'll continue to evaluate the offers. With respect to your question on RIPET, I mean the facility itself was built to accommodate 80,000 barrels with minimal capital expenditures to get there. We are expecting to gradually increase that volume through 2020, and we've continued to procure supply. And so we're forecasting and will come out with exact numbers. But we should expect this to be above our 40,000 barrel level in -- throughout 2020. In the next month, we'll give you some clear guidance on what that is as we walk through our business plan.

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

Excellent. Congratulations on everything, truly impressive.

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

Appreciate it. Thank you for that.

Operator

Your next question comes from Robert Kwan from RBC Capital Markets.

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

If I can come back to the Utility spending. And Randy, you've talked historically and again today about making sure that you're very efficient with the capital. I'm trying to get in on the trackers and the timely recovery. But then, again, you're also talking about the rate base growth in that 8% to 10% as being -- and that's pretty similar to what you've talked about in the past. So are we seeing a pickup in the amount of spending that you think you can direct into the trackers? Or is that just a shift between kind of where the CapEx was before between what can get immediate recovery and what might have a lag on it?

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

Yes. No. Thank you, Robert. Good question. As I've said in the previous calls, our target is to -- anything above our depreciation expense to recover through our accelerated pipeline replacement programs, which will eliminate the regulatory lag on a going-forward basis. And so we're making progress there. I think you should expect us to continue to increase the spend that we have in that mechanism as we target the 8% to 10% growth. And I think that's really where we're targeting. We have the ability to make the filings, we've made a couple. We're working in Washington, D.C. district right now with a filings so expect us to increase the spend there, which will -- I think, provides a win-win to both our customers, our shareholders, by providing a safe, reliable system, driving down costs and improving the service levels for all of our customers. So that's our strategy, and we're laser-focused on executing on it.

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

Got it. So is total spending up? Or is it just the shift between kind of activities that might have a lag? And where you've got recovery into the trackers?

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

I think right now we're primarily looking at a shift, but when we get through into our business plan, and we lay out our plan for 2020, you'll see a modest growth in overall rate base like I targeted the 8% to 10%. But first is the shift in the accelerated and have the incremental run through that as well.

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

Got it. I guess turning to ACI, you didn't sign a support agreement, and you effectively have a blocking or a control position as it relates to the vote. Just wondering, are you actively working your stake as part of this?

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

We are -- obviously, as I made -- Robert, in my prepared comments that we are working in the best interest of AltaGas shareholders. We commend the ACI team for the process and the price that they ran. But certainly, we are open to offers. We stand ready. If there is -- so we're certainly focused on that, and we'll see how the process goes.

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

So do I take that as, as you're passively kind of there, and if something happens that's great? Or versus actual?

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

Yes. I would. I mean, look, we think that it's a good price. And I've always said that, that asset is non-core to us. And so absent something that is better to our shareholders. Yes, we would certainly move forward with the sale.

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

Great. If I can just finish with Blythe, the $40 million, Randy, that you noted. Is that U.S. dollars or Canadian dollars?

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

Yes. U.S. dollars.

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

Okay. So a slight reduction, but nothing massive from where you are?

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

There is a little. I look at it as pretty consistent to where we've been.

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

Okay. And then just with that, the Siemens service contracts, if Blythe were to shut down post this contract, are you on the hook for the remaining payment? Or can you terminate without the further obligation?

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

Yes. Could you repeat that, Robert? I'm sorry, I didn't get the question.

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

I think you've had a service contract at Blythe with Siemens. It runs a lot longer than 2023?

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

That's the maintenance contract. Right, right. I believe that continues. But let me check that, okay? Just to make 100% sure. I believe that's a longer-term contract. We can get to the specifics on that.

Operator

Your next question comes from Linda Ezergailis from TD Securities.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

I'm wondering if you could give us some -- a bit more color on the Virginia regulatory situation. Can you give us a sense of the ongoing run rate on the effect of this decision to EBITDA, earnings and FFO? And then further to that, if your appeal is successful, what would be the upside related to that? And can you comment on the nature of the elements that you're appealing in that decision?

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

So Linda, we've fully reflected the downside of the Virginia hearing examiner's reporting in Q3. So we wouldn't anticipate that this will have an ongoing impact in 2020 relative to 2019. Ultimately, the Hearing Examiner's Report was no increase to base rate so we feel that we've fully reflected the true up and the accelerated refund of the TCJA amounts, reflecting the lower tax rate. You are correct; we have appealed that decision. And perhaps, Adrian, our President of WGL could comment on some of the areas that we are appealing. But what I can say is that it's hard for us to speculate on what the ultimate decision will be. But to the extent that we are successful in overturning certain aspects of the hearing examiner's report, that'll all be upside that we reflect in 2020.

Adrian P. Chapman - Washington Gas Light Company - President, CEO & Director

This is Adrian Chapman. Yes, I'll comment on a couple of items in the appeal. We focused on some items specific to the language of our Virginia SAVE accelerated replacement program and how that surcharge should be included in an assessment of whether we are earning within the allowed range or not. We think the commission, through the Hearing Examiner's order, has inappropriately calculated what our earnings are, by adding in the Virginia SAVE surcharge revenues. And we believe that if those are excluded, then we fall below the allowed earnings range, and it triggers an opportunity for the increase to take place. I think that's very specifically going to be focused on a review of the legislative language, and I think there is an opportunity for upside as a result of that.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

And can you just quantify what the upside would be if you're fully successful?

Adrian P. Chapman - Washington Gas Light Company - President, CEO & Director

I think we certainly see that, that is then going to trigger or be triggered by the Commission's review of some O&M, some expenditure items that the Hearing Examiner is also disallowed as nonrecurring. And so it's really going to be triggered by those decisions, and I think those amounts are laid out in the appeal language that is in what we filed with the Commission. So that could be variable, and the range could be in the amounts of several million dollars.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

And just a follow up on the Midstream business. In your Q3 results, there was some mention of lower volumes at Townsend due to producer activity. Can you comment on what the outlook is in terms of producer activity in the regions in which you operate in Western Canada? And how you're managing maybe some of the counterparty risk with existing customers on that front?

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

So I'll let Randy Toone, our President Midstream, Linda, address your volume issue and ramp-up at Townsend. And then James can talk about a bit of the credit as well. Randy?

Randy W. Toone - AltaGas Ltd. - Executive VP & President of Midstream

Linda, the areas of Montney that we have with Townsend, we do see growth as we're doing the expansion, so we do have Kelt volumes increasing. The volume decline that we saw in Q3 was really one of our IT customers. They started up their own facility, and so they did remove some volumes, but we think that's going to be offset by the new volumes coming in from Kelt. They are drilling in this part of the Montney for condensate, and that's really the value driver there. So we do think volumes are going to grow in our Montney asset.

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

Linda, it's James here. On the credit side, obviously, it's not a phenomenon that's unique to AltaGas. Obviously, all midstreamers that are doing business in Western Canada are concerned with that, but we actively monitor financial health of all our counterparties. We obviously are working with producers to provide access to premium markets in Asia for them to increase their netbacks. We've been very, very active over the last 12 months in terms of diversifying our customer base within our Northeastern B.C. footprint so that we're not overly reliant on any one customer. And obviously, we continue to invest in a very strong basin that has a lot of liquid, so we feel that liquids will continue to flow in Western Canada and continues to generate some pretty strong economics. And the last thing I'll say is, if you look at our Midstream business, obviously the RIPET terminal has counterparty exposures to Asia, where we are the marketer of those barrels and those are strong investment-grade credits. And then on the tolling side is where we're dealing with local customers and monitoring credit profiles actively.

I wouldn't mind just coming back to the question you asked on the potential upside of the Virginia appeal. And again, I want to say that we're not going to speculate on how that goes, but if we're successful on all fronts, we expect that we can actually recover about US$10 million to US$12 million of that amount.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Is that revenue or earnings?

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

It would be revenue that flows to EBITDA.

Operator

Your next question comes from Robert Catellier from CIBC World Markets.

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

I just wanted to dig into RIPET a little bit further. So it looks like the contracting is up a little bit. Does that include the volumes from the Nig facility?

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

Yes, but there is a bit of volumes coming in through the Nig facility. We put that pipe into service earlier this year. Randy, you want to comment on that any?

Randy W. Toone - AltaGas Ltd. - Executive VP & President of Midstream

Sorry, what was your question?

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

The Nig Creek volumes. Are they coming onto the system this quarter?

Randy W. Toone - AltaGas Ltd. - Executive VP & President of Midstream

Robert, yes, the Nig Creek facility, Black Swan brought that on in September, and they're flowing. It's 100 million a day facility, and they're flowing probably 80% or more through that facility. So that would be the growth in volumes there.

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

Okay. And just what is the commercial strategy to increase tolling volumes at RIPET? And is it really tied to the NGL new year? Or can you increase some in the interim period? Is that basically the gating item to expand the facility? In other words, what level do you have to contract up the base facility before you consider expanding?

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

Well, Robert, this is Randy. Not exactly. But to your first part of your question that we can absolutely do tolling as we move forward. And we have agreements on the existing facility and that will ramp up over time. But that's not -- the expansion of RIPET requires very minimal capital.
It's more of the logistics and such and procuring more of the supply. So we expect to be able to ramp that up. But at the same time, we would expect tolling to ramp up consistently with that volume curve because there's robust demand to access the FEI markets. And so you should expect this to increase tolling but at the same time, move additional volumes into RIPET.

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

Okay. And then finally, just a clarification here. In the normalized EBITDA variance for Midstream on Page 19, there's number of items that are indicated there, RIPET, WGL, Petrogas, but also higher NGL marketing margins. So that's in addition to RIPET and Petrogas? I wonder if you can sort of describe what's impacting those margins.

Randy W. Toone - AltaGas Ltd. - Executive VP & President of Midstream

Robert, it's Randy Toone. Those are really around butane sales that we originally had planned for Q2 that we've moved into Q3. So that was just -- it's more of a one-time event.

Operator

Your next question comes from Elias Foscolos from Industrial Alliance Securities.

THOMSON REUTERS

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

I got a question related to the dividend that you alluded to, Randy. From an investor or market perspective, I mean, I think I have some ideas. But what would be the trigger point or trigger event or events that would prompt you to take potential dividend increase to the Board?

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

Well, again, we're working through our investment grade in S&P in the asset sales that we're moving forward. But I think as we look at our business plan going into 2020 and the growth in net income, we'll be looking at targeting consistent with that growth, a dividend policy that follows growth in net income. So since we're focused on growing EPS in the next few years, we will take that to the Board and discuss that in the context of all of our financing strategies. But philosophically, where we went ahead is the raise that increase the dividend consistent with the growth in earnings. But we'll be going through that in detail here. We've built our foundation, its strong financial position, and now we're executing on our operations, which will allow us to grow earnings and dividend going forward.

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

So I guess the way we can look at that is a confirmation of investment-grade rating and a clear path to net income increase would be the trigger points, correct?

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

Correct. Those are the 2 key triggers. You're correct.

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

So maybe I missed this, but you definitely alluded to coming out with a capital forecast and potentially in EBITDA and FFO forecast. Would that come before year-end? Maybe some idea of the timing on that.

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

Yes. I think that we're looking at -- and I'll let James comment, but certainly, this year, through our business planning and setting our capital budget and getting our Board approved, that would come before the year-end. Do you want to add to that, James?

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

Yes. that's part of our normal planning cycle, Elias, where we're meeting with the Board at the end of November to review capital budgets for 2020, and obviously EBITDA targets and net income. We will be updating the markets once we get those approvals from the Board.

Elias A. Foscolos - Industrial Alliance Securities Inc., Research Division - Equity Research Analyst

Great. One final question, and it'll focus on RIPET. If I break the potential increase in volumes at RIPET into securing supply or working through logistics, what do you see the more critical factor? In other words, if you could get the supply tomorrow, do you still have logistics issues that will take you a year to work out? Or is it the reverse? Is it work out logistics and then try to get supply? Or get supply in place and then logistics will work itself through?

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

Well, Elias, both. Each and every day, the team's doing an excellent job building its core competency and improving the logistics each and every day. At the same time, it is related to where we bring the supply from ultimately, and how we manage the rail issues. So it's a combination of the two, but we're actively managing that working with CN and our producers. So I think that you won't see -- you'll see throughout next year, a consistent, steady increase going forward. But they're both related as to where we get the supply and then how we manage the logistics.

Operator

(Operator Instructions) The last question comes from Patrick Kenny from National Bank Financial.

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

Just to follow up, again, on RIPET here. Clearly, running full out, and I'm sure the priority over the near term is to maximize back propane volumes and spreads. But just curious if you're also looking at capitalizing on any butane or LPG export opportunities at the site? Or is there just not the same international demand or arbitrage opportunity for local butane?

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

Patrick, no. There's opportunities, and our business development team and Randy are looking at all the different options. As I said, we believe the marginal molecule in Canada needs to be exported and that would be to Asia, not to the U.S. That applies to both butane as well as propane.
So we'll continue to look at those opportunities going forward, but right now we're focused on moving propane specifically. But we definitely have negotiations and thoughts going on in all the products.

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

If I could just add, right now our platform, we are benefiting from an increase in butane exports through our investment in Petrogas as well. They've moved a lot of volumes this year of butane into Asia at some very strong margins, and that's where our platform has benefited from butane.

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

Got it. And then also on the business development front in Northeast B.C. There's been a new NGL pipeline and extraction plant proposed. Just wondering if a new straddle plant is something you guys would look to compete for? Or is it the North Pine and Younger footprint that you have enough to backfill your goals at RIPET?

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

I think that we believe a new straddle plant would add value to the basin versus moving rich gas to the U.S. market. It would produce more LPG volumes, and quite frankly, those volumes would need to be exported, and that would be beneficial to RIPET. And we would like to handle those molecules in every aspect of the business.

Operator

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

Adam McKnight - AltaGas Ltd. - Director of IR

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