

AltaGas Limited**Second Quarter 2023 Results**

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the AltaGas Second Quarter 2023 Financial Results Conference Call.

My name is Sergio and I will be your Operator for today's call.

(Operator Instructions)

After the speaker's remarks, there will be a question-and-answer session.

As a reminder, this conference call is being broadcast live on the Internet and recorded.

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

Adam McKnight — Director, Investor Relations, AltaGas Limited

Thanks, and good morning, everyone. Thank you for joining us today for AltaGas' Second Quarter 2023 Financial Results Conference Call.

Speaking on the call this morning will be Vern Yu, President and Chief Executive Officer; and James Harbilas, Executive Vice President and Chief Financial Officer. We're also joined here this morning by

Randy Toone, Executive Vice President and President of our Midstream business; Blue Jenkins, Executive Vice President and President of our Utilities business; and Jon Morrison, Senior Vice President, Corporate Development and Investor Relations.

We'll proceed on the basis that everyone has taken the opportunity to review the press release and our second quarter results. Similar to previous quarters, we've published an earnings summary presentation that you can find on our website. The presentation walks through the quarter and highlight some of the key year-over-year variances and nonrecurring items that we thought would be helpful for the market to understand.

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

As for the structure of the call, we'll start with Vern Yu providing some comments on our financial performance and progress on our strategic priorities, followed by James Harbilas providing a more detailed walk-through of our second quarter financial results, near-term outlook and 2023 guidance, and then we'll provide lots of opportunity at the end for Q&A.

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 our investor presentation, which can be found on our website and more fully within our public disclosure filings on SEDAR.

With that, I'll now turn the call over to Vern.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Thanks, Adam, and good morning, everyone.

It's great to be here today to discuss our Q2 results and update you on our operations and other corporate developments. But before we do that, let's spend a few minutes on why I think AltaGas' future is very bright. I've already had the opportunity to take a deep dive into the business, visiting our offices and operations and have connected with our employees, customers, partners and shareholders.

This has enhanced my already bullish view of AltaGas, and I'm excited to leverage the Company's exceptional assets in the months and years ahead. I came to AltaGas because I saw an opportunity to create a highly sustainable and growing infrastructure platform with a robust investment proposition.

We are positioned to deliver industry-leading dividend growth through stable and growing cash flows, and we will be able to improve our risk profile as we recontract commercial agreements in Midstream, file timely rate cases continue to optimize our capital spend while managing our cost in our Utilities segment. In Utilities, we're modernizing the network with our accelerated pipe replacement program and adding new customers across the DMV.

In Midstream, we continue to see growth in volumes for global exports and value chain optimization opportunities. I believe the long-term fundamentals for AltaGas' businesses are strong. Western Canada will deliver significant growth in both natural gas and NGL production as industry ramps

up production to feed LNG Canada and other export facilities. These growing NGL volumes will need additional West Coast egress to maximize value for our customers.

The good news is RIPET and Ferndale can deliver this today, and our REEF project will provide even more egress when it's up and running in late 2026. The future of our Utilities segment is also very bright. Natural gas remains the largest energy source for homes in the DMV and the electrical substitution costs for this energy are more than three times that of natural gas.

As we continue our conversation on the energy transition, we need to be mindful and balance the critical needs of energy affordability and energy reliability with our regional and national climate goals. All of this cements the fact that natural gas is a key part of today's energy mix and will be part of that energy mix for decades to come.

Q2 was impacted both financially and operationally by the devastating wildfires across Alberta and B.C. Our thoughts are with the people and the communities affected by these fires. I want to thank our dedicated employees who are involved in wildfire relief and help with the recovery efforts across the communities where we operate. Their actions reflect the values of our Company.

Let's talk about the quarter.

AltaGas continued to execute on its long-term strategy during Q2. The wildfire and the timing of some of our hedges had a negative impact financially in Q2. Despite these results, the first half of 2023 was in line with our expectations. Today, I'm going to reiterate our 2023 full-year guidance with

normalized EPS in the range of \$1.85 to \$2.05 and normalized EBITDA in the range of \$1.5 billion to \$1.6 billion.

The Company continues to show steady progress in our long-term deleveraging plan, where we're now approaching our near-term target of being less than five times on a debt-to-EBITDA basis, and we have line of sight to get to 4.5 times.

We are pleased with the progress shown on removing the milestones remaining to complete the Mountain Valley project, including the receipt of all remaining permits to finish construction and start operation of the pipeline. This was reinforced by the U.S. Supreme Court ruling yesterday to vacate these days are replaced on the pipeline by the Fourth Circuit. The partners now have a clear path to the pipeline being completed by the end of the year.

In the second quarter, we've delivered normalized EBITDA of \$239 million and EPS of \$0.06 per share compared to \$276 million of normalized EBITDA and \$0.14 per share of EPS in the second quarter of 2022. Midstream results were inclusive of \$7 million from negative wildfire impacts, and another \$12 million due to hedge and ship timing impacts, which will reverse the next couple of quarters. This should increase second half EBITDA by \$12 million, normalized EPS by \$0.03 per share and normalized FFO by \$0.04 per share in the second half of 2023.

In the Utilities segment, operating performance was relatively in line with expectations, but did include another \$4 million of negative weather impacts stemming from warmer-than-normal weather in Michigan and DC. Midstream delivered strong volume performance in the quarter. Total gas inlet volumes

grew by 11 percent. Fractionation volumes increased by 32 percent and global exports were 4 percent higher, but all on a year-over-year basis.

Some of these volumes were impacted by the wildfires, where we saw a backup in global exports and outages at our North Pine fractionator. We're very excited about the long-term opportunity associated with growing our global exports business and providing Canada with more global connectivity for LPGs as we increase throughput at RIPET and Ferndale.

REEF will add to that. It's a very exciting project for us. It will further bolster our leading LPG export business by adding even more egress for the basin. We continue to refine the engineering and construction plans for the projects, and we're hoping to have a positive FID for the project either at the end of this year or early next year.

With that, I'll turn the call over to James.

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

Thank you, Vern, and good morning, everyone.

I'm pleased to provide a more detailed overview of the quarter. As Vern mentioned, we obviously had some headwinds and timing issues that impacted financial results during the second quarter, but we did show operational strength across a number of areas, while we continue to remain positive on the long-term outlook for the platform.

We achieved normalized EPS of \$0.06, normalized EBITDA of \$239 million and normalized FFO per share of \$0.53. Results were slightly below our expectations and were inclusive of approximately \$7 million of wildfire impacts and approximately \$12 million of hedge and ship timing impacts. Despite the second quarter being modestly behind our expectations, we are pleased with where we sit on a year-to-date basis through the first two quarters, and we are reiterating our 2023 guidance.

Together, the wildfire, hedge and ship timing impacts reduced normalized EPS by an approximately \$0.05 in the quarter with the hedge and ship timing impacts representing approximately \$0.03 of this impact, which we expect to reverse in the second half of 2023.

Turning to the operating segments. The Utility segment reported normalized EBITDA of \$102 million in the second quarter of 2023 as compared to \$116 million in the second quarter of 2022. The largest driver of the year-over-year variance was the divestiture of the Alaska Utilities, which closed in the first quarter of 2023. The Alaskan Utilities had contributed \$15 million in the second quarter of 2022.

Washington Gas delivered normalized EBITDA of \$69 million in the quarter, an increase of 6 percent on a year-over-year basis. This growth was driven by the combination of interim rates in Virginia, ongoing capital asset modernization investments into ARP programs that are focused on upgrading our system and favorable foreign exchange. This was partially offset by warmer weather in the District of Columbia, which had a \$2 million negative year-over-year impact in the quarter and unfavorable O&M expenses driven by employee benefits and incentive costs.

SEMCO delivered normalized EBITDA of \$19 million in the quarter, which is down \$2 million year-over-year as continued customer growth was offset by warmer weather in Michigan, which had a \$2

million negative year-over-year impact in the quarter and slightly higher O&M costs related to pension benefits. The retail platform was down year-over-year, which was principally driven by the timing of swaps and higher-cost gas in inventory.

During the second quarter, we deployed \$198 million of invested capital at the Utilities on behalf of our customers, including \$125 million through our various ARP modernization programs. These investments are focused on upgrading the network to improve safety and reliability of our system while also bringing ancillary benefits of long-term productivity improvements.

As such, we will continue to make these upgrades on behalf of our customers while balancing ongoing customer affordability needs during this environment of high-interest rates and inflation.

Turning to the Midstream segment. Normalized EBITDA came in at \$134 million compared to \$163 million in the second quarter of 2022. The quarter included strong operations and year-over-year volume growth across the platform, including global exports, the financial performance was impacted by a number of factors. This included the wildfires and evacuation of the North Pine facility for a little more than 12 days, which had an approximately \$7 million impact across the platform.

Most importantly, we did not have any safety incidents associated with the wildfires and there was no damage to the facility. We were able to return to normal operations once the evacuation orders lifted. Thanks to the dedication and hard work of all of our employees.

During a period like this, we were also reminded of the great customers and partners we have across our operations as everyone came together and had opened in regular communication to ensure the safety of our employees and all our stakeholders in the communities surrounding the facility.

We also had a \$7 million impact due to ship timing in the quarter, which will positively impact the third quarter and a \$5 million impact due to hedge timing, which is expected to positively impact the fourth quarter results.

The quarter was impacted by lower marketing contribution, lower Asian to North American butane margins as a result of higher cost of butane and inventory from the previous contracting season and lower realized pricing on fractionation volumes.

In the second quarter, we exported approximately 116,000 barrels per day of propane and butane to Asia spread across 19 VLGCs as well as on partially loaded ship. This included over 70,000 barrels of propane exported from RIPET and 45,000 barrels per day of combined propane and butane from Ferndale. The quarter included 36 percent of global exported volumes toll. Toll volumes do generate lower EBITDA per barrel of LPG exported. We continue to advance our lower-risk business model.

We continue to be well hedged in our global exports business for the remainder of 2023, with approximately 77 percent through a combination of toll and financial hedges with the financial volumes hedged at an average FEI to North American spread of \$15.32 per barrel.

As a result, we expect a strong contribution from the global export business in the second half of the year and particularly in the fourth quarter once we move through the remaining impact of higher-cost

butane inventory from the last NGL contract year. As a reminder, we expect to take delivery of one new VLGC time charter at the end of 2023, a new time charter in early 2024 as well as a third in the first half of 2026.

Each of these time charters are expected to reduce our ocean freight costs by approximately 25 percent relative to normal Baltic freight pricing and lock-in pricing on a long-term basis. In the Corporate and Other segment, we reported normalized EBITDA of \$3 million compared to a loss of \$3 million in the second quarter of 2022. The \$6 million year-over-year improvement was mainly driven by lower operating expenses associated with employee incentive plans.

In terms of other developments, while there was two stays placed on the Mountain Valley pipeline by the Virginia Fourth Circuit of appeals, those have now been vacated by the Supreme Court of the United States yesterday. The project can now move ahead with a targeted completion date of 2023 year-end. We've always believed in the fundamentals of MVP and the benefit of being able to bring Marcellus Utica Gas down into East Coast utilities and consumption markets. The pipeline's initial 2 Bcf per day capacity is fully subscribed, principally with investment-grade counterparties and strong demand-pull shippers, and it is further expandable through incremental compression, including firm and interruptible service.

We have always been transparent with regards to MVP being a noncore asset to our strategy. Once the project is derisked, it would be considered for monetization to reduce leverage and bring us closer to our long-term leverage goals. We have made significant progress towards lowering our leverage ratios and increasing the margins of safety within the business over time, including lower-risk commercial constructs as we continue to focus on delivering durable and growing EPS and FFO per share growth.

Within the Utilities, there were a number of regulatory events during the quarter. In April, Washington Gas, SEC of Virginia staff in the Office of the Attorney General filed a proposed stipulation for a settlement that includes a revenue increase of \$73 million and return on equity of 9.65 percent. Washington Gas also filed a rate application in Maryland to increase rates by \$28 million during the quarter, net of costs currently collected through the STRIDE ARP programs.

We expect the Maryland PSC to make a decision on that application in mid-December. We also filed an application in Maryland for the third phase of the STRIDE ARP program for approximately \$495 million of spending between 2024 through 2028, which will continue to provide runway to modernize the system and drive better long-term outcomes for our customers in the jurisdiction.

And finally, in the District of Columbia, the PSC amended the schedule on our active rate case in that jurisdiction and a hearing is tentatively scheduled for mid-September with the final decision on that case now expected in early 2024.

At the halfway point of the year, we are sitting in line with where we expected to be when we issued our 2023 guidance back in December, and our overall outlook for the year hasn't changed, including our expectations of normalized EPS guidance of \$1.85 to \$2.05 per share and normalized EBITDA guidance of \$1.5 billion to \$1.6 billion.

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

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

(Operator Instructions)

Your first question comes from Rob Hope from Scotiabank. Please go ahead.

Robert Hope — Analyst, Scotiabank

Good morning, everyone. Thanks for taking my question. Question for Vern. With being in the seat a couple of weeks now, can you add some initial impressions of what you think as the key strength of the AltaGas story, where the key opportunities are? Then longer term, how do you envision a Company with Northeast B.C. Midstream and Northeast U.S. gas distribution assets? Do you think on a longer-term basis, those two make sense together?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Hi, Rob. Thanks for the question. I think that's probably the top-of-mind question I get from everyone I talk to, whether it's employees, the Board of Directors or investors. Really, what attracted me to coming over to AltaGas is, number one, I think the fundamentals of both businesses are quite strong. If we start with WGL, gas, for sure, remains the lowest cost energy source to provide space heating in the DMV. That's a pretty substantive margin. I think it's by 300 percent or something in that range.

Also, if space heating in the DMV by gas is actually more GHG-friendly than electrifying that part of the energy value chain and I think it's a pretty substantive GHG benefit as well. But there will be

opportunities for us to lower that gas footprint. I think you've seen things that my prior company did, and I think we can bring those experiences over here.

With Midstream, obviously, there's very strong tailwinds for liquids growth in the WCSB on the back of natural gas development for LNG exports out of Western Canada. That is one of the key factors that there's strong energy fundamentals. There's great embedded growth opportunities here in the business. You're seeing visible capital that's available to be deployed for modernization of the utility. The utility continues to add meters and grow its customer base each and every year. The demand for natural gas is actually on the rise in our franchise areas.

Within Midstream, I think the export story is really unique for Canadian Midstream companies. There's more opportunities to expand exports. There's more opportunities to grow the value chain in Midstream to take advantage of our unique value proposition. We've got a great growth project underway right now with REEF and its initial incremental capacity to be in the range of 50,000 barrels a day, but that only uses up a very small portion of the dock that we're going to build there.

As you mentioned, the Company is not without challenges. I think it's fair to say that we're not quite firing on all cylinders at this time. If we can make progress in optimizing both businesses, I think we're going to make—create some shareholder value. Obviously, at the Utility, we've got to narrow the ROE gap. We've got to improve some of our regulatory relationships with regulators, particularly in DC. We need to create better alignment on the energy dialogue where energy affordability, energy reliability and climate are all taken into account in the various regulatory frameworks we have.

We're going to make efforts to improve the risk profile in Midstream. We know we need to do more tolling. We know we need longer-duration contracts, and we need to make sure we're very tightly managing any residual commodity risk that we have. We're on our journey on deleveraging the balance sheet. You can see that we've made good progress after the last couple of years, and we have line of sight now on how we get to our target debt-to-EBITDA metrics. That still remains to be done.

At the outset, I think my focus with the team is to maximize all of these priorities where we take advantage of our opportunities, work on our challenges. Then that will create optionality for us on what the Company looks like in the future. That's job one. As you know, we're always keenly focused on maximizing shareholder value, and that's what we're going to—that's what we'll be doing.

Robert Hope — Analyst, Scotiabank

All right. I appreciate that color. Then maybe just as a follow-up, just in terms of the risk profile on the business as well as increasing the interactiveness. When you take a look at the global export business overall, how do you balance additional growth opportunities versus just terming up the existing base business in a longer-term manner? Is it first fully contract and extend the contract at the base business before any additional capital could get sanctioned? Then how would you look at any capital be fully passed off by contracts?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Well, I think there's going to be some timing lags and making that happen, Rob. I think we understand long term once the capital is fully deployed, that the cash flows need to be highly, highly contracted. It's probably debatable to what percentage at this particular point in time. I think the team here has talked about getting to at least 60 percent toll over time on all of the volumes that we have. If

we're able to go higher than that, I think that is an opportunity to decrease the volatility in that business, which should be positive for us overall.

Robert Hope — Analyst, Scotiabank

All right. That's great. Good to hear from you, and congratulations on the new role. Thank you.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Thanks, Rob.

Operator

Thank you. Your next question comes from Jeremy Tonet from JPMorgan. Please go ahead.

Jeremy Tonet — Analyst, JPMorgan

Hi, good morning.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Hi, Jeremy.

Jeremy Tonet — Analyst, JPMorgan

Hi. Just wanted to follow up a bit more with the LPG export business, if we could. Just vision for how much risk can be taken off the table? How much tolling hedging? How far out do you see it going at this point or strategic views on where that stands? Also, on the back of that as it relates to 2023 open exposure, how do you feel that leaves AltaGas position within the guide? Is there a bias towards the low end or the high end of the guidance at this point?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Maybe I'll take the first part, and then I'll turn it over to James to get into some of the details. I think what we're aiming for is more tolling. What we've seen is, over time, that tolling that we're able to get from the customer basis is gradually going on. I think when the facility came on stream, there was strong customer interest. Then during COVID, there was a decline in customer interest. This year, we're starting to see some demand-pull customers from Asia, who've now seen that the barrels are there ratably, the barrels are there consistently and that there's a price advantage for them to source their barrels from Western Canada.

We'll have a combination over time of demand-pull volume and supply-push volume which should be beneficial to both sets of customers where producers are going to maximize their netbacks by going to Asia. Asian buyers are going to maximize their profitability by accessing cheaper Western Canadian barrels. That's going to take some time to firm up longer-term tolls.

I think it's very consistent with the answer that I provided to Rob, that we want to get that number up, and we want to lengthen the duration. It's not something that's going to happen overnight, but the team is keenly focused on both of those objectives.

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

Hey, Jeremy. It's James here with respect to your question on forecast. Obviously, we're reiterating the range of \$1.5 billion to \$1.6 billion and no different this year than any year. Halfway through the year, we've obviously experienced both headwinds and tailwinds relative to the initial guidance when we rolled that out in late 2022.

In terms of some of the headwinds that we can give you some color on, obviously, weather has been a constant theme in terms of headwinds of the Utilities, and that continued into the first month of the second quarter as we entered shoulder season. That's been a headwind all year. We've obviously had retail that's been impacted by milder weather and timing of some swaps. Then we've also had the timing of some of our rate cases slip potentially even into early 2024 in the case of our rate case in front of the DC regulators right now that have been headwinds at the Utilities.

With respect to Midstream, obviously, the wildfires was something that impacted the quarter to the tune of \$7 million. We expect a little bit of a residual impact into the second half as we're still running on Gensets at North Pine as BC Hydro works to get high-line power back to facilities in the area. Then we touched on some of the continued drag on C4 margins as a result of last contracting year and the fact that we were a little higher from a tolling percentage standpoint. We're moving slightly less merchant barrels, which hasn't dropped the weighted average cost of butane as quickly as we had anticipated when we rolled out our guidance.

Then in terms of tailwinds, some of the positives are going to be AFUDC as MVP is making forward progress. The consortium is now booking AFUDC on that project again and Q2 benefited slightly from that, and we expect that the second half of the year will benefit from continued AFUDC. Then another tailwind is obviously stronger C3 margins as the curve starts to set up for the winter season in Q4.

Jeremy Tonet — Analyst, JPMorgan

Got it. That's helpful. Thank you for that. Just, I meant to ask as well on the LPG export. How much of the propane export at RIPET is sourced from AltaGas versus third parties? Are you guys able to share that?

Randy Toone — Executive Vice President and President, Midstream

Hi, it's Randy Toone. Approximately 10,000 barrels a day are sourced from our AltaGas barrels and the remainder, say, another 60,000 are sourced from customers.

Jeremy Tonet — Analyst, JPMorgan

That's helpful. Thank you. Vern, I realize it's only been a month in the seat. But just curious, your thoughts on the WGL side getting out in meeting the commissioners across your jurisdictions there, thoughts on if you do that, when you do that, how you think about building those relationships to

narrow the under-earning, as you said there, and curious specifically on Maryland, given shifts in the commission there, any thoughts that you're able to provide on that?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Well, I'll start, and I'll turn it over to Blue for some more color, Jeremy. Obviously, you hit the nail on the head. I think it's very important for us to file timely rate cases, but we also need to be—to control the narrative and have others advocate on our behalf as well. Obviously, we're very committed that natural gas is the most affordable energy for our customers. It's the most reliable energy for our customers.

In the DMV, it's actually the lowest carbon energy for our customers to heat their homes. We have to push that narrative hard with all of the regulators that we deal with in the DMV. My plan is to work with Blue to be there and be there regularly to actively help with that engagement. But we also want to build a coalition of energy users to also provide that message to the regulator because I think it's important to get the public more dialed in on this particular topic.

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

Yes. This is Blue, Jeremy. I agree with everything Vern said. The process, as you know, in our particular jurisdictions, while we're active in rate cases, it limits our ability to be in active discussions unless it's focused on the rate case, of course, with the regulators. We have a good relationship. As you noted, the Maryland PSC is turning over. We're working our way through those new relationships. I would say that our working relationship across all our jurisdictions are very good.

As Vern points out, we constantly have a discussion through our customers on what they need and what they want and how we're able to help them manage that affordability and reliability while progressing climate goals, and we want to ensure that those voices are heard. We're pushing all of those forward collectively. But I agree with the outline that Vern said, and we'll continue to work that process.

Jeremy Tonet — Analyst, JPMorgan

Got it. That's very helpful. I'll leave it there. Thanks.

Operator

Thank you. Your next question comes from Andrew Kuske from Credit Suisse. Please go ahead.

Andrew Kuske— Analyst, Credit Suisse

Good morning. Maybe if we could just focus on your Western Canadian Midstream business and just your customer conversations, and it's twofold. It's one, their expectations on volumetric growth on a longer-term basis, given all the trends you talked about earlier on. Then their desire to have an integrated service; in particular, more integrated service from AltaGas.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

I think we'll let Randy tackle that one.

Randy Toone — Executive Vice President and President, Midstream

Hi, Andrew. For the discussions with our customers as far as toll angles, from the producer side, the producers in Western Canada, they are looking at market diversification for their natural gas and also for their LPGs. We're providing them with a new premium market. A lot of our sophisticated producers are looking at additional tolling and long-term tolling for both propane and butane.

Then our offtake customers, our Asian customers, they see us as a reliable, secure source of LPG, and we're seeing that accelerate. A lot of our customers are wanting to do—take the Western Canadian price and get that advantage. We are seeing that, a pull and push from both sides on products.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Andrew, I think this is a great opportunity for us because having the premium market allows you over time to extend your value chain reach all through the NGL Midstream infrastructure process where

if you've got the best market to get to, you will then be able to offer more services on a more bundled basis, which ultimately will provide investment opportunities for us and just enhance the returns on our existing Midstream assets. Over time, that's what we think the benefit of having the docs are. I think we're going to work very hard on extracting as much value as we can.

Andrew Kuske— Analyst, Credit Suisse

I appreciate that. Then maybe just expanding in and building upon that. What kind of return improvement do you think you can achieve, especially on a risk-adjusted basis, if you get the volume growth, greater stability with higher percentage of tolls and maybe locked in and duration? Then corporate-wide, you're deleveraging, which should result in better financing costs also. Just collectively, how do you think about that opportunity on a bps basis and then the multiplier effect as you builds up more infrastructure?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Well, that's a great question, Andrew. It's going to be very imperative for us to earn a premium above the hurdle rate on capital that we invest, whether it's in Midstream or whether it's in Utility. We have a limited amount of capital that is available to us each and every year. We're obviously deleveraging. We're operating on an equity self-finance model.

We're going to invest the capital into the highest return businesses or highest return projects, subject to making sure that our systems are safe and reliable. I think maybe James can comment on the typical hurdle rates that we have in each of the businesses. Obviously, we're shooting for a premium over those hurdle rates.

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

The only thing I'll add, Andrew, to Vern's commentary is obviously, when we're looking at final investment decisions, we are looking at it on a risk-adjusted return basis. Vern talked about the fact that we want to get to as high degree a percentage of tolling is possible. The higher the tolling percentage

and the more stability in those cash flows and the longer duration of the contracts themselves and that hurdle rate would be lower. That's how we're basically looking at those risk-adjusted returns.

In terms of REEF, so REEF, we've talked about it in the past. We feel that we can probably build that project at a six to eight times build multiple, which would generate some strong returns, and we've talked about some of our hedging targets—sorry, our tolling targets with respect to that facility that would underpin the type of return that we could potentially be looking at with respect to REEF when it moves forward.

Andrew Kuske— Analyst, Credit Suisse

Okay. Thank you very much.

Operator

Thank you. Your next question comes from Robert Kwan from RBC Capital. Please go ahead.

Robert Kwan — Analyst, RBC Capital Markets

Hey, good morning. Vern, you talked earlier about some of the opportunities. I'm just wondering, it's still early. Are there things, though, that you're thinking about for AltaGas to do differently, specifically, where do you see the business mix? How are you thinking about leverage, whether it's the targets themselves or at least the timing to get there? Then just the overall structure of the Company?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

I think, Robert, what you're getting to is a commentary on the disciplined capital allocation. As you know, from my past experience, that's something that's been very important to me. I think in the longer term, that's how we optimize shareholder value. You're right, the starting place for disciplined capital allocation is a strong balance sheet. The team here has done a great job on deleveraging the Company.

We've got the target credit metric. We have line of sight to that now. I think with the combination of embedded EBITDA growth that's going to happen from the capital that the Company has invested over the last couple of years and select asset sales of non-core assets, we should make significant progress, hopefully sooner rather than later to get us to that 4.5 times medium-term target.

Once we're there, we'll reevaluate where we want to be. But at that time—right now, the main goal is to get from 5.1 to—4.5, sorry, as quick as we can. Then when we're there, we're going to have \$1 billion plus per year of annual investment capacity where we don't need to issue any equity. That investment capacity will then go to the best capital allocation investment that we can make and which will grow EBITDA, and then we'll be in that virtuous circle of deploying capital, growing our EBITDA, growing our dividend and then having that cycle repeat. Hopefully that answers your question, Robert.

Robert Kwan — Analyst, RBC Capital Markets

Yes, that's great. You mentioned earlier in the call just optionality on what the Company looks like in the future. Can you just elaborate on what you're getting at there?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Yes. I think there's lots of energy infrastructure companies out there. Some of them are pure play. Some of them are diversified. We've seen diversified companies trade at premiums. We've seen them trade at discounts. We'll continue to evaluate what is the best and most optimal structure for this Company. But right now, we are what we are. As I mentioned earlier, we've got to get both of our businesses as close to optimal as we can as job one because that creates optionality.

Robert Kwan — Analyst, RBC Capital Markets

I don't know if I can put words in your mouth effectively as you think about wherever decisions you're going to make here, whether that's financial, operational, asset-wise, are you looking to basically just continue, to position the Company to get it into a position where as many of these options for value creation are on the table. Is that fair?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

For sure. That's Management's job is to continuously look at how do we maximize shareholder value for our shareholders.

Robert Kwan — Analyst, RBC Capital Markets

Okay. Specifically, you talked about just the interplay between pure plays and diversified. That seems to be kind of important to have the optionality to go either way.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

I think any Company always needs to be looking at that regardless of what stays there.

Robert Kwan — Analyst, RBC Capital Markets

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

Operator

Thank you. Your next question comes from Robert Catellier from CIBC Capital Markets. Please go ahead.

Robert Catellier — Analyst, CIBC Capital Markets

Hi. At this point, I just have a couple of follow-ups. Maybe I'll follow up Rob's question there on how you're looking at the business differently. You have the existing debt targets that are in place that exclude the hybrids. Do you have a view on what the leverage should be if you were to include the hybrids in that calculation? How does that change your outlook on the metrics?

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

Rob, the metric that we've always cited did exclude press and hybrids from it, and that's the relative progress we made, and it's been significant. When Vern touched on some of those targets in the context of our desired ratings as well, that's always factored in from a ratings calculation standpoint. I don't think it changes the overall metric on a GAAP basis that we want to get to at 4.5.

Obviously, hybrids and press are included in the rating agency calcs. For us to get to BBB with Fitch, we've got to get to a 5.5 times FFO to debt. Obviously, with respect to S&P to get to BBB, we need that 14 percent to 15 percent on a regular basis with respect to FFO to debt percentage. It doesn't really change the overall 4.5. I think we're still pushing towards that, and we've always consistently benchmarked ourselves against that, excluding press and hybrids.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. Then just a clarification here on the impact of the wildfires extending into the third quarter. Is that really limited just to the impact on the power cost from having to run on the Gensets? Or is there anything else taking accumulation of barrels or just logistics and things like that?

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

It's the former.

Robert Catellier — Analyst, CIBC Capital Markets

Former and quantify it. Is it less than the Q2 impact?

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

It's significantly less than the Q2 impact. It's a couple of million dollars, and it is very much limited to the fact that we still got to run on Gensets. Operationally, the facility started to run pretty much at nameplate capacity when the evacuation was lifted and people will get—be able to get the facility inspected and make sure that there was no damage, and we were able to ramp up.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. Thanks, everyone.

Operator

Thank you. Your next question comes from Dariusz Lozny from Bank of America. Please go ahead.

Dariusz Lozny — Analyst, Bank of America

Hey, guys. Good morning. Thanks for taking my question. On the Utilities business, just maybe more of a broad strategic type question. How do you think about how the retail business factors into the overall risk profile, stability/predictability of earnings? Or asked another way, are the synergies that you get from that business and the incremental EBITDA, do they make the slightly enhanced risk profile and less predictability in earnings worth it as you think about the trade-off between the two? Thank you.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

I think the retail business has historically generated reasonable profitability for the Company over time. There is obviously more volatility that comes from that business because—and particularly here because the Company hasn't been employing hedge accounting. That has changed. Going forward, you're going to see less volatility out of that business.

When there's a firm fixed price gas sale, obviously, the team locks in a fixed price gas purchase. There will be some volume variability due to weather, but that is actively tracked and tightly managed. I think if we have the right systems, procedures and people in place, this is a profitable business for us. As you will see, starting next year, there will be less volatility out of this segment.

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

I just want to add something that Vern touched on, which I think is an important distinction. When it comes to the business itself, it has been very resilient and performed well through COVID. It

obviously performed well through Storm Yuri as well because the team does a great job at managing volatility from an economic basis. They were able to lock in profitability with a very active hedging program.

Really, the volatility that we're seeing here is more to what Vern touched on, and that's the accounting or the lack of hedge accounting. That's something that we implemented May of '23, so '24 will be the first year that we've got full hedge accounting for the entire year, and that accounting volatility or reporting volatility will go away. But the underlying economics of the business are solid.

Dariusz Lozny — Analyst, Bank of America

Awesome. Thank you, guys, very much. Really appreciate that additional color. One more, if I can, and this is just more clarification on the quarter. You guys called out positive contribution from AFUDC after the MVP restart in June. I imagine that was just a stub period. Is there any way you could quantify what that contribution was in Q2, what do you see it for the balance of the year and whether there's anything embedded in your current year guidance around that?

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

Yes. I'll start with the last part of your question. With respect to the guidance, it was one of the tailwinds that I touched on that's helped to offset some of the headwinds, and that's why we feel very, very comfortable with the range. In terms of the overall contribution to the quarter, that is in our financial statements under the equity note. It's about \$6 million for June, and we expect it to average about \$5 million to \$6 million per month for the balance of the year as we make forward progress as a consortium on that pipeline and get closer to the in-service date. That's the overall contribution, Dariusz.

Dariusz Lozny — Analyst, Bank of America

Great. Thank you, guys, very much. Really appreciate it.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Thanks.

Operator

Thank you. Your next question comes from Patrick Kenny from National Bank Financial. Please go ahead.

Patrick Kenny — Analyst, National Bank Financial

Oh, hey, guys. Just wanted to confirm, assuming MVP gets done now and you're able to monetize your 10 percent stake by, say, early next year, would those proceeds go towards debt repayment on a permanent basis, i.e., take down the leverage by half a turn or so? Or would you view it more as, say, dry powder to potentially accelerate organic growth or fund tuck-in acquisition opportunities?

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

Hey, Patrick. It's James here. We've always been pretty consistent that MVP was going to be an asset that, when we were ready to monetize it, was going to go straight to permanent debt reduction, and it was obviously the quickest path for us to get to 4.5 times. Vern touched on us being able to get there organically as well through EBITDA growth, but that was going to take some more time. MVP is definitely the lever that we want to pull to be able to permanently reduce our debt and get to that 4.5 times target that we set for ourselves way back in 2019.

Patrick Kenny — Analyst, National Bank Financial

Okay, perfect. Thanks for clarifying that. Then maybe just from a corporate priority perspective, clearly firming up the cash flow quality profile of the Midstream business and maximizing Utility ROEs is top of the list. But Vern, given your experience at looking at all kinds of opportunities in the power sector, how are you thinking about maybe positioning the Company over the medium term to potentially get back to developing large-scale renewables again or potentially owning other mid-merit

natural gas power plants? Maybe you can comment on if there's any regional power markets out there that might be of particular interest to you, say, over a five-year horizon?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Well, thanks for the question, Patrick. Right now, there's no plans to get into the power business. It's not even on the radar. We do have some energy transition investment opportunities in front of us. Obviously, we're working on carbon capture and sequestration hub here in Alberta and associated CO2 pipeline network.

I think we've got clearance from the Alberta government to continue to work on that. We've got strong customer demand for that CO2 storage. That's in front of us. We're working on a couple of hydrogen hubs, one in Washington State and one in the DMV. Both of those play well into what we do here at AltaGas, which is transport liquid—gaseous and liquid energy. Right now, that's the focus because I think that's what we're good at.

Patrick Kenny — Analyst, National Bank Financial

Got it. Okay. Appreciate that color. I'll leave it there, guys. Thanks.

Operator

Thank you.

(Operator Instructions)

Your next question comes from Linda Ezergailis from TD Securities. Please go ahead.

Linda Ezergailis — Analyst, TD Securities

Thank you. I don't want to belabor the point of the theory of a firm, but it is topical, as you can appreciate. Beyond the strategic and capital market success and cost considerations, are there any tax

considerations when you're looking at and assessing the merits of a diversified consolidated company versus pure play? How do you factor in considerations around the scale of a pure play versus the potential dis-synergies of additional corporate costs? Have you discussed this at any point with the credit rating agencies?

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

I would say those are great points, Linda. There's obviously some funding in tax synergies with the structure we have today. There are relatively minor cost synergies by having a corporate function here that provides services to both of the businesses. Those factors, for sure, will have to be looked at as part of any analysis that we do longer term and what do we look like. You're right, if we would split up the Company, both remaining entities would be relatively small.

Linda Ezergailis — Analyst, TD Securities

Thank you.

Operator

Thank you. There are no further questions at this time. You may proceed.

Vern D. Yu — President and Chief Executive Officer, AltaGas Limited

Thanks. Thank you, everyone, once again for joining our call today and for your interest in AltaGas. That concludes our call this morning. I hope you enjoy the rest of your day, and you may now disconnect your phone lines.