Q4 2017 ALTAGAS LTD. EARNINGS CALL

CORPORATE PARTICIPANTS

David Harris *AltaGas Ltd. – President & CEO*

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

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

CONFERENCE CALL PARTICIPANTS

Patrick Kenny *National Bank Financial – Analyst*

David Galison *Canaccord Genuity Corp. – Analyst*

Robert Hope *Scotiabank Global Banking and Markets – Analyst*

Robert Catellier *CIBC World Markets – Analyst*

Ben Pham *BMO Capital Markets – Analyst*

Robert Kwan *RBC Capital Markets – Analyst*

PRESENTATION

Operator

Good afternoon. My name is Matthew and I will be your conference Operator today. At this time, I would like to welcome everyone to the AltaGas 2017 Year-End and Fourth Quarter Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers remarks there will be a question-and-answer session. If you would like to ask a question during this time simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key.

Jess Nieukerk, Senior Director Investor Relations, you may begin your conference.

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

Thank you. Good morning, everyone. Welcome to the AltaGas' fourth quarter and full year 2017 conference call. Speaking today are David Harris, President and Chief Executive Officer, and Tim Watson, Executive Vice President and Chief Financial Officer. After some formal comments this morning, we will have a question-and-answer session.

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

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

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

Thank you, Jess. Good morning, everyone. In 2017, we delivered very strong financial results, even slightly ahead of our guidance. The year was a testament to our strong operations and to what each business segment can deliver.

We achieved 14 percent growth in normalized EBITDA at $797 million, up from $701 million in 2016. The growth came from all three of our business segments. Our gas segment increased 36 percent to $221 million. Utilities increased 8 percent to $298 million and Power was up 6 percent at $303 million.

Normalized funds from operations increased 11 percent to $615 million or $3.60 per share, up from $554 million or $3.52 per share a year ago. This was ahead of our guidance and high single-digit growth. Our strong financial performance in 2017 is attributed to the strong growth we have had over the last

few years as well as a more favourable economic environment. On the growth front, we had a full year contribution from Townsend and Pomona, in addition to contributions later on in the year from Townsend 2A and North Pine. We also benefitted from higher frac spreads which increased almost 2.5 times when compared to 2016, higher river flows and contractual prices at our Northwest Hydro facilities and rate and customer growth across our utilities as well as colder weather at some of them.

The strong operational and financial performance demonstrated throughout the year also gave the board confidence to increase the dividend by just over 4 percent for 2017. Our Northeast B.C. and NG export strategy are really taking shape. Our construction team continues to perform exceptional work, bringing both Townsend 2A and North Pine online, on time and under budget. With the addition of North Pine in December, we have a complete energy value chain available to producers at very competitive rates.

Further, in just over a year's time, we will be able to offer access to Asian markets for propane through our Ridley Island Propane Export Terminal. Construction at RIPET is tracking exceptionally well and once online in Q1 2019, we will be able to take full advantage of Far East Asian pricing for propane and offer potential for premium netbacks to producers. Our indirect ownership interest in the Ferndale LPG export terminal, followed by RIPET is just the start of our export business. We believe we have a strong strategic advantage to do more and will be able to leverage our own expertise as well as the expertise and strategic positioning of our global partners like Vopak to continue to grow energy exports.

Let me now turn to the pending acquisition of WGL. First I'd like to address some of the more recent comments we've been hearing from the market. Clearly, the US tax reform is having varying degrees of impact on different Canadian corporations. We are finding that the impact to ALA combined with WGL is less pronounced than what other utility businesses are experiencing because of the diversification of our business segments. Tim will run through this in a bit more detail including what we expect for 2018 and for 2019, the first full year as a combined company. But I want to be clear that we do not see the impacts as overly material to our business or to the combined businesses of AltaGas and WGL.

We continue to expect that the acquisition of WGL will be accretive to both earnings and cash flow per share and instrumental to our long-term strategy and vision of being a leading North American NG infrastructure company. The growth platform that it creates for AltaGas and all three of our business segments is impressive. We'll work hard to capture the full potential of the opportunities brought forth by WGL and achieve maximum value from the acquisition for our shareholders.

Turning to the regulatory process, in early December we announced a positive settlement agreement with many of the key stakeholders in Maryland. The settlement agreement was an important step forward providing enhanced benefits to Maryland. We also completed settlement hearings in mid-February and the commission is set to issue the decision on or before April 4. In Washington D.C., we concluded hearings in December and we expect D.C. to issue the decision within the first half of this year. This is on track with what we have always stated and we remain comfortable with this time frame.

I also want to quickly address financing of the acquisition in terms of asset sales. As mentioned in our press release, we have identified over $4 billion of assets from our Gas, Power and Utility business segments which we are currently evaluating, and we expect to realize over $2 billion from this asset sale process in 2018. With the present optionality available and in light of a number of factors including recent developments in the California Resource Adequacy markets, we have discontinued the sale process for the Blythe and Tracy Facilities. We will instead continue to pursue other structuring and commercial opportunities to unlock the value of the California assets. Tim will address this some more.

With the California market's continued progress on renewables, flexible generation is needed as a backstop. Tracy and Blythe both benefit from the unique strategic locations in California. In addition, the enhanced flexibility built into Blythe over the past year in terms of the low-load turndown and the additional connection to El Paso gas supply has proven to be quite valuable. Between stronger resource adequacy markets, which we firmly believe will continue to strengthen in the coming years, the opportunity to combine energy and ancillary service offerings to support renewables and the proliferation of community choice aggregate; is adding more load-serving entities across the entire market. We believe there are multiple opportunities to unlock value from these facilities. We are very excited about the year ahead and our future with WGL. We are acquiring very high-quality assets, both regulated and unregulated that are highly contracted with quality counterparties. And with the growth profile of our combined companies that I referred to earlier, we believe we can create significant future value for our shareholders.

As we move to close the acquisition, we will remain disciplined and will pursue our financing plan in a prudent and timely fashion. Combined with WGL, we expect to deliver significant earnings in cash flow per share growth and maintain our targeted dividend growth of 8 to 10 percent from 2019 through 2021. With over $20 billion in assets and approximately $6 billion in growth opportunities still in front of us, we will ensure to capture these opportunities and maximize shareholder value.

Let me now turn the call over to Tim.

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

Thank you, Dave. Good morning, everyone. 2017 was a transformational year at AltaGas. Our base business delivered strong results, highlighting the full benefits of our diversified business platform. To underscore this, 2017 normalized EBITDA was up 14 percent to $797 million compared to $701 million in 2016. Normalized funds from operation, or FFO, were $615 million or $3.60 per share, up 11 percent from $554 million or $3.52 per share. And both these measures, EBITDA and FFO, exceeded our previously communicated guidance for the year.

All three business lines contributed to EBITDA growth this year. So let's just start with the Gas segment, which grew by 36 percent in EBITDA for the past year to $221 million and that represents 27 percent of our total normalized 2017 EBITDA. A full year contribution from the Townsend Facility and commencement of operations at Townsend 2A in October of last year drove an increase of over 25 percent for FG&P volumes. Following the turnaround at the Gordondale Plant in Q3 2017 and then the agreement with Birchcliff, volumes at that plant increased by over 25 percent in the fourth quarter of 2017 versus the previous year.

In addition, strong realized frac spreads, which increased 80 percent to $13.40 per barrel versus last year, as well as higher frac expose volumes, higher NGL marketing revenues and stronger gas storage margins all contributed to the strong performance in Gas. Note, that the first quarter sale in 2017 of the EDS and JFP pipelines impacted Gas results by about $11 million versus the previous year. Equity earnings from Petrogas increased to $25 million versus $12 million last year due to dividend income earned from the investment into preferred shares and also solid contributions from all of Petrogas' business segments.

Turning to Power, this segment saw EBITDA growth of 6 percent to $303 million in 2017 and that represented 37 percent of total normalized 2017 EBITDA. Full year contributions from the Pomona Energy Storage Facility were a positive along with the absence of equity losses from the Sundance B PPAs and increased contributions from the Craven Facility, the biomass facility, due to shorter planned outages. And this was partially offset by lower realized gains on Alberta power hedges.

Northwest Hydro ended the year achieving similar generation to 2016 but at higher average prices and is well-positioned to deliver incremental generation in 2018. Operationally, Blythe's increased flexibility and a second supply of gas led to meaningful increases in capacity factor at that facility through the second half of 2017.

Finally, AltaGas' Utilities achieved 8 percent EBITDA growth to $298 million in 2017 and that represented 36 percent of total normalized 2017 EBITDA. This was achieved through customer growth, rate base expansion as well as colder weather at SEMCO, ENSTAR and AUI.

A weaker US dollar in 2017 impacted Power and Utility EBITDA by about $10 million. Normalized funds from operation increased 11 percent in 2017 to $615 million as a result of the strong results in all of our business segments, partially offset by lower distributions from Petrogas and higher current income tax expense. On a per-share basis, normalized FFO was up $0.08 to $3.60 versus the previous year. In 2017, we received $13 million in preferred share dividends from Petrogas versus only $6 million in 2016. And we also received $5 million in common share dividends versus $24 million in 2016, which was in line with our expectations for the year.

During the year, the Power segment recorded pre-tax provisions on assets of approximately $133 million related to the Hanford and Henrietta gas-fired peaking facilities and certain non-core development stage gas-fire peaking assets in both California and Alberta. A small impairment was also taken on a non-core gas processing facility that was classified as held for sale.

For 2017, income tax recovery was $34 million compared to income tax expense of $33 million previous year. Income tax decreased mainly due to the tax recovery recognized on provisions on assets taken during the year and the impacted US tax reform. These decreases were partially offset by higher income tax expense due to a portion of transaction costs incurred on the pending transaction and the unrealized losses on certain risk management contracts that were not tax deductible.

As at 2017 year-end, the US deferred tax liability was re-measured based on the lower 21 percent US federal tax rate, which resulted in a net reduction of $136 million in the deferred tax liability. For the portion of that which related to our non-regulated US businesses, $34 million of this re-measurement was recorded as a reduction to income tax expense, while the remaining $102 million was recorded as a deferred regulatory liability on the balance sheet.

Normalized net income in 2017 was $204 million or $1.19 per share versus $153 million or $0.98 per share in 2016. Key drivers were higher EBITDA, partially offset by higher preferred share dividends, interest and depreciation expense. There were several normalizing adjustments for 2017 and you can find those in the disclosure that we released this morning.

On a US GAAP basis, net income applicable to common shares for 2017 was $30 million or $0.18 per share. This compares with $155 million or $0.99 per share for 2016.

Invested capital net of dispositions in 2017 was $408 million, down from $666 million in 2016. Almost two-thirds of the total capital invested in 2017 was in the Gas business. The actual capital expenditures incurred in 2017, net of contributions from Vopak, were at $478 million as compared to the previous guidance of $500 million to $550 million. Capital expenditures were below guidance mainly due to small adjustments on timing as well as the completion of both Townsend 2A and North Pine below budget. Maintenance capital in 2017 totalled $19 million, split approximately 50/50 between Power and Gas.

AltaGas' balance sheet is in a strong position and well-funded for 2018. At year-end 2017, debt-to-total capital was 44 percent, down from 45 percent in 2016 and 46 percent in 2015. This remains well below our bank and term note covenant levels of approximately 65 percent to 70 percent, and we have about $2 billion available on our existing bank credit facilities and we continue to have very strong access to multiple sources of funding. In 2017, we successfully completed just over $3.5 billion of new debt and equity issues to support the new infrastructure projects discussed and the WGL acquisition.

So now I'll turn to 2018 outlook and we anticipate closing, as we've said consistently, the WGL acquisition by mid-year. As a combined entity, we expect normalized EBITDA to increase approximately 25 to 30 percent and normalized funds from operations to increase approximately 15 to 20 percent. The

acquisition of WGL is expected to drive growth in all three business segments with a combined Utility segment expected to be the largest contributor to EBITDA. Gas and then Power will be the next largest contributors with these two representing about half of total corporate EBITDA.

Our strategic plan remains the same, create meaningful growth in each of our three business lines and that has not changed with the WGL transaction. Over the next few years we see significant defined growth opportunities in each business that in total summed to over $5 billion. 2018 EBITDA from Gas will benefit from the first full year of commercial operations at both Townsend 2A and North Pine, higher earnings from frac-exposed volumes as a result of higher hedge prices and WGL's pipeline investments in the prolific Marcellus and Utica. The Stonewall Gas Gathering System inside WGL is currently in service. WGL's largest new gas investment, the Central Penn Pipeline in Pennsylvania, is under construction currently and is expected to be operational later this year. WGL's second-largest new gas pipeline called the Mountain Valley Pipeline, located in Virginia and West Virginia, is undertaking preconstruction site preparation as it secures final regulatory approvals. Finally, WGL's gas supply agreement associated with the Cove Point LNG Terminal will also drive growth this year with the terminal expected to be in service shortly.

There are plant turnarounds at our Harmattan and JEEP Facilities in mid-2018, which will impact EBITDA by up to approximately $6 million. Extraction volumes exposed to frac spreads prior to hedging will be about 10,000 barrels per day for 2018 with hedges in place this year for approximately 7,500 barrels per day at a very attractive level of $33 per barrel, excluding basis differentials.

Pro forma for WGL, approximately 65 percent of 2018 Gas EBITDA is expected to be generated or underpinned by take-or-pay in cost-of-service contracts with no direct volume or price exposure and this percentage should actually increase in 2019.

For 2018, EBITDA from Power, that will benefit from higher expected earnings from the Northwest Hydro facilities due to both price increases as well as efficiency improvements. In addition, I shouldn't overstate that WGL's growing distributed generation assets which are located in over 20 US states will start contributing in 2018.

We have not included further upside from potential new energy storage developments, although we're certainly working hard on some of those. The PPA for Ripon will expire in second quarter of 2018 but it will be partially offset by the new resource adequacy contract that was announced.

2018 EBITDA from Utilities will be driven by rate-based growth as well as the addition of WGL's growing Utility business.

2018 expectations assume a moderately weaker US dollar relative to 2017. Approximately 65 percent of total expected 2018 EBITDA from AltaGas will come from the US, and I'll just give you one quick sensitivity so pro forma for WGL in this year, for every $0.05 change in the FX rate, the annual impact to 2018 EBITDA is approximately C$27 million.

Looking at AltaGas on a stand-alone basis, excluding WGL for 2018, we expect a moderate increase to both normalized EBITDA and FFOs compared to 2017 driven primarily by the factors previously noted.

Turning to 2018 capital expenditures, we expect to spend on a stand-alone basis $500 million to $600 million. Gas will account for 55 to 60 percent of that total, while Utilities will account for 25 to 30 percent and Power will account for the remainder. Gas and Power maintenance capital is expected to be approximately $25 to $35 million. The majority of capital this year will be allocated towards continued construction at RIPET as well as maintaining and growing the rate base at our Utilities. The 2018 capital program is expected to be funded through internally generated cash flow and a dividend reinvestment plan. And if required, we also have sufficient borrowing capacity available on our existing credit facilities as well as access to capital markets.

On a combined basis, with a mid-year closing of the WGL transaction, we expect capital expenditures in the range of approximately $1.0 billion to $1.3 billion. Similar to AltaGas' stand-alone spending, close to half of this total will be allocated to Gas with the majority of the remaining expected capital directed to Utilities followed by Power.

AltaGas plans to fund WGL with the proceeds from its aggregate $2.6 billion bought equity deal and private placement of subscription receipts, which closed in the first quarter of 2017. In addition, AltaGas has US$3 billion available under its fully committed bridge facility which can be drawn at the time of closing and which will remain available for 12 to 18 months following the transaction close. With all funding required for the closing of the WGL acquisition in place currently, AltaGas can evaluate and pursue its asset sale process in a prudent and timely fashion in step with the regulatory process and being consistent with our long-term strategic plan.

Management, as Dave noted, has presently identified a total of over $4 billion of assets, excluding California, from AltaGas' Gas, Power and Utilities business segments which it's evaluating various options for monetization on. This could include the sale of either minority and/or controlling interests. Management expects to realize over $2 billion from its asset sale process in 2018 and we are testing different assets and markets and have specific criteria that comprise the scorecard for which assets to move on. These criteria include strategic visions, shareholder value creation, meeting WGL financing needs, future growth potential and obviously pro forma balance sheet strength. With the present optionality available to AltaGas and in light of a number of factors including recent developments in the California Resource Adequacy markets, AltaGas again as noted already, has discontinued the previously announced sale process of its California power assets. And I'll just emphasize, in addition to asset sales which I've already discussed, additional financing steps could include offerings of senior debt, hybrid securities and equity-linked securities such as preferred shares. And we remain committed to maintaining strong access to capital and to our investment grade credit ratings.

US tax reform is not expected to be material to AltaGas on a stand-alone basis or the combined entity with WGL. AltaGas estimates that normalized EBITDA and FFO in 2018 will be reduced by approximately 5 percent with the impact on normalized net income expected to be neutral to slightly positive. And beyond 2018, the impact on normalized net income is expected to be slightly positive, while increased cash taxability over time should reduce the negative impact on FFO.

The lower tax rates at the combined regulated utilities will provide customers with decreased rates while providing the opportunity to drive rate-based growth. The US non-regulated Gas and Power segments are expected to record higher normalized net income as a result of the lower US federal tax rate, partially offset by limitations on the deductibility of interest expense for US tax purposes.

At SEMCO in Michigan, we posed an immediate rate reduction for customers using the last filed rate case, calculated using a new federal tax rate. Separate from that, any adjustments to the deferred tax liabilities are expected to factor into the next rate case. The lower tax rate could create additional rate-based investment opportunities over time.

The WGL transaction remains a very strong strategic fit for AltaGas. It brings significant opportunities for continued growth in all three business segments: Gas, Power, and Utilities. It also adds to our financial strength when we complete this with a combined asset base of over $20 billion. On a combined basis, over 3/4 of total EBITDA will be underpinned by long-term contracts with no direct commodity price or volume exposure. The WGL transaction remains highly accretive to both FFO per share and earnings per share beginning in the first full year of 2019. This will support an 8 to 10 percent annual dividend growth rate annually starting in 2019 while improving the dividend payout ratio.

Finally as a reminder, we have posted sensitivities for frac spreads, FX and natural gas volumes in our current investor presentation located on our website. And so with that, I'll turn it back to Jess.

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

Thank you, Tim. Operator, we'll now open it up to questions from the investment community.

QUESTIONS AND ANSWERS

Operator

Thank you. If you'd like to ask a question at this time, please press *, then the number 1 on your telephone keypad. Our first question comes from the line of Patrick Kenny with National Bank.

Your line is open.

Patrick Kenny – National Bank Financial – *Analyst*

Yeah. Good morning, guys. So notwithstanding the man-hours that have gone into the acquisition but just given where the stock is today relative to where it was before the deal was announced as well as the $31 sub receipts, now with the failed sales process for the California assets and the slightly negative impact of US tax reform; have you at least taken a look at the option internally of just paying the break fee, giving back the sub receipts and simply forging ahead with your base business in a much cleaner balance sheet? And if so, how do you look at the valuation delta between those two options?

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

This is Dave Harris. I'll start and then turn it over to Tim, just a couple things – is the sale process in California was not a failed one. It was an election we decided to not to go forward with because of enhanced value opportunities we see going forward in California. So, just as it relates to what our decision process or mind-set was with respect to California. As it relates to the overall deal with WGL, we are tracking very nicely on this deal. As we've stated, this has very strong accretion to earnings across the board for AltaGas. It positions this company as well on a combined basis with a very robust three-segment business that give ourselves diversification not only from a technology-based, business line base but a geographic base, which is going to be equally important going forward as a company.

So that's where our mind-set is and our direction is at this point and we're not evaluating a break scenario certainly at this point. And so on the financial stuff, I'll turn it over to Tim.

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

I mean I think the bottom line is we think we're in a better positioned financially from an accretion standpoint so I'm talking per share metrics, EPS and FFO per share, and balance sheet as well. And I'm talking credit ratios, metrics like FFO to debt and other various ones. We actually believe it produces a superior financial outcome. We've always said that 2018 is a year with a lot of moving pieces. Nobody is going to debate that. It's a bifurcated year. If you have a half a year of AltaGas and a half a year combined, you have a half a year of a lot of different factors that are worked into the 2018 numbers.

Again as we've said, we always expect 2019 to be the first full year. It's obviously going to be the most clean year in terms of evaluating the financial metrics for the combined company. And when you do that and you say, look at what's the pro forma for 2019 financial metrics on a combined basis versus what it would otherwise be, it's a better outcome. So maybe I'll leave it at that and we can continue to take questions.

Patrick Kenny – National Bank Financial – *Analyst*

All right, and just to follow-up here with respect to monetizing over $2 billion of assets in 2018, you mentioned in the release that you'll be looking at both minority and controlling interests. Does that include potentially looking at selling a controlling interest or potentially all of your Northwest Hydro assets? And if so, how do you manage the impact on your credit ratings after selling down such high-quality cash flow?

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

Well maybe I'll start and Dave, jump in as you see fit as well. I mean, really as we've said, we have a, I guess a large portfolio of assets. We're talking AltaGas assets across our three business lines focused I'd say more on Canada. Northwest Hydro is one of a large portfolio, frankly, of assets that we have under evaluation. We have not made any decisions yet.

I mean, as I said in my prepared comments, we're actively studying a number of different paths there with those. We're actually doing things here as we sync that with the regulatory timing and close. We very much value that asset and we think it's worth a lot to us as a going concerned company. So again, maybe I'll just stop right there.

Patrick Kenny – National Bank Financial – *Analyst*

All right, appreciate the colour. I'll jump back in the queue.

Operator

Our next question comes from the line of David Galison with Canaccord. Your line is open.

David Galison Canaccord Genuity Corp. – *Analyst*

Hi. Good morning, everyone. So my first question relates to the lower EBITDA guidance for 2018. So in Q3, we were looking at about 40 percent growth and we're at 25 to 30 percent. Now, you've highlighted about 5 percent is due to the tax reform but could you give a bit of colour about what's behind the extra 5 to 10 percent reduction? Is it more to do with timing, expected timing for the acquisition or something within the assets themselves?

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

Yeah. I mean, I would say there are a handful of things. It's certainly not one singular issue. The tax reform really is not a material impact as I took you through but it is there and did we think there'd be—going back to the last guidance which would have been October of 2017—did we think there'd be some tax reform? Sure. I mean but, as you're well aware, there were two competing proposals at that time and we didn't get resolution until basically Christmas. So we had to make some assumptions. Directionally, we were, I think, we were correct in our assumptions. But again, details a little bit different than when it ultimately emerged. Several other factors go into the slight shift there. One I'd point out is a positive factor. That's the factor we had a very strong Q4 2017. I'm talking AltaGas and that did have a small impact in terms of the year-over-year percentage math calculation, I guess.

In terms of our timing for WGL, that has not shifted. I want to emphasize that emphatically. We've always said first half of the year and more specifically, mid this year. But again, it's a large transaction. Even if you make slight adjustments, I'm just going to illustratively say a month, plus or minus, it has an impact, right? And so again, it's a modelling impact but I want to make sure you understand our view hasn't changed on timing whatsoever and we are tracking at or faster than what we originally thought. So that was one point. And again, last one I'd say is simply we've continued to quite honestly, evolve our thinking on dispositions. The dispositions we do are going to enhance value. And we've learned a number of things as we work with our advisors and test different ideas in different markets here. And frankly, we're going to optimize those asset dispositions through a collection of steps. And that's shifted a little bit again, frankly, since October 2017 but ultimately in a good way because they're going to be better optimally done transactions to accomplish our debt reduction.

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

And I think the only thing I would add to the end of Tim's commentary to the question around is there anything wrong with the assets? No, there's nothing fundamentally wrong whatsoever. We like exactly what we see and the combined strength of the companies and expect them to perform as we anticipated when we went into the deal.

David Galison Canaccord Genuity Corp. – *Analyst*

Okay and then just a clarification on the CapEx. So as a combined entity, assuming the acquisition closes mid this year, you're up to $1.0 billion to $1.3 billion. Does that mean that CapEx in the second half increases $500 million to $700 million?

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

So I think in our December—we did put out a press release in December. It had a few different things in it, but I think we did reference a combined CapEx number, if I'm not mistaken. I think it was $1.2 billion to $1.5 billion. We've tightened that in a little bit and lowered it just slightly but to answer your question, yeah, it would be the WGL that gets layered in for the second half of 2018.

David Galison Canaccord Genuity Corp. – *Analyst*

Okay and then just the last question on leverage. So post-acquisition, what do you expect your debt to EBITDA to be? And ultimately, what are you targeting for the combined company?

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

Well, I'll start with—while my team helps me here a little bit—I think I'll start with the FFO to debt. I mean we're targeting that mid-teens level. We're not bashful about that. We've been saying that for a couple of years and we're chipping away on that and progressing that, so that's on track. We also look at our debt-to-cap metric. Why? Because that's governed by the covenants we have in our various documentation and on a debt-to-EBITDA basis, I'm going to say about five times. It could ultimately trend a little bit lower than that but that would generally be the direction.

So again, I think that, if I'm not mistaken, is pretty consistent with what we said on that metric.

David Galison Canaccord Genuity Corp. – *Analyst*

Okay. Thank you very much. I'll get back in queue.

Operator

Our next question comes from the line of Rob Hope with Scotiabank. Your line is open.

Robert Hope – Scotiabank Global Banking and Markets – *Analyst*

Good morning, everyone. A couple of clarifications, just on the 2018 guidance that you just walked us through, if we assume that WGL hasn't moved and then you largely outlined kind of tailwinds being a pushout of some of the asset sales. So can you give us what the headwinds were that moved you from 40 percent EBITDA growth year-over-year to a lower number, cognizant of 5 percent being US tax reform?

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

So again, these are things I've already said but so tax reform, a small headwind. If you adjust out a month, just give you that example, on a timing for the transaction, still within the first half of the year, that's a headwind because you're out a month of EBITDA, for example. If you finish stronger on a Q4 2017 basis, then the simple math says it's a higher hurdle on a percentage growth year-over-year into 2018. Those would be headwind examples.

Robert Hope – Scotiabank Global Banking and Markets – *Analyst*

Okay. Thank you, maybe I'll follow up. And then just regarding the California sales process, just regarding the commentary there on it not being a failed process, was the process cancelled because the bids coming in were below your threshold or because the changes in the California market increased your expected value of the assets?

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

Yeah. It's the latter.

Robert Hope – Scotiabank Global Banking and Markets – *Analyst*

Okay. That is helpful and then just regarding the settlement in Maryland in December, did that alter kind of meaningfully any financial expectations for WGL?

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

No. No, none whatsoever.

Robert Hope – Scotiabank Global Banking and Markets – *Analyst*

All right, thank you.

Operator

Once again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad. Our next question comes from the line of Robert Catellier with CIBC. Your line is open.

Robert Catellier – CIBC World Markets – *Analyst*

Hey, good morning. You've answered most of my questions. I noticed that you maintained the dividend growth guidance for WGL. Does it make sense to provide us an update on your per-share metrics accretion expectations?

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

Robert, this is Tim here. Consistent with what we've said going back a year, I guess, no material shift in those accretion metrics.

Robert Catellier – CIBC World Markets – *Analyst*

Okay. Just on Northwest Hydro, you referred a couple times to efficiency enhancements. Can you walk through what's going on there?

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

Sure. This is David Harris. Be happy to. We constantly look to improve the asset as you get more and more familiar with the river flows, and the asset has always performed as we expected. But we're actually seeing opportunities to turn around with whether it's how we clean the trash rakes, along with a number of other smaller and minor things that we continually to treat—to just continually help enhance efficiency and performance, Robert.

Actually not too much different than what we do across the board on all our assets, so still relatively—not that the assets are that new anymore—but they're still in their early stages of life. So you always take advantage of opportunities as you get wiser and smarter to continue to push efficiency and it results in higher earnings.

Robert Catellier – CIBC World Markets – *Analyst*

So these are just supporting the assets on an operating basis as opposed to capital enhancements?

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

That's correct.

Robert Catellier – CIBC World Markets – *Analyst*

Okay, I guess I want to go back to the question about credit metrics with respect to changes in your asset sales plan. On the one hand, obviously it could be more accretive if you sell higher value assets but there is a credit or business risk profile implication there. So I just want to confirm, from the totality of your comments today, that you're not contemplating any additional corporate actions as a result of the change in the asset sale plan to maintain your credit rating other than those that were already enunciated at the time of the acquisition?

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

I'll start and Tim can finish. That's correct, Robert.

Robert Catellier – CIBC World Markets – *Analyst*

Okay. Thank you.

Operator

Our next question comes from the line of Ben Pham with BMO. Your line is open.

Ben Pham – BMO Capital Markets – *Analyst*

Okay. Thanks, good morning. I was wondering can you talk a bit more about the California market and some of your comments about the Resource Adequacy. It's changing a little bit and really what's changed there from your outlook on the power market there?

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

Sure. It's nothing that's really changed. It's always like a timing issue with the California market, depending on how certain opportunities involved. We certainly thought it at some future date, Resource Adequacy, certainly community choice aggregators are going to gain momentum, which they are. But as we got into the sales process and we started to see the coattails of those markets pick up, as Tim referenced and we put out earlier, we turned around and picked up a Resource Adequacy contract for Ripon. We're seeing additional interest, not only in Ripon-type assets that go into '19 and '20 beyond; there's been recent dialogue with respect to the opportunities with Blythe and Blythe is sooner in the queue with respect to contract expiration than Tracy. Tracy still has some fairly decent length on it. We expect the same things to take place there.

And the other thing that's taking place too is the resurgent with respect to battery opportunity which all our assets play very well on. So when we took a look at the overall value and specifically some of the enhancements that we've made to Blythe with the added gas line being tied in to low turndown, which took place quite frankly, at the end of the July into August time frame, about the same time we were starting to put together the sales process for the California assets; we've seen significant requirement in the capacity factor of that facility, well over 20 percent. And we're seeing that strength continue in January and into February and we don't expect it to subside. So those enhancements, as well as gas pricing at that facility by as much as 20 percent and a significant degree of flexibility with respect to the off-taker for low turndown, so a number of different key points that reset our compass with respect to value of these assets over the long term, which we acquired as to say it doesn't make any sense to continue with the sale process.

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

And I just make one other maybe nuanced comment, I guess, on the California process. Our view on what the value achievable from that process could be really didn't change over Q3, Q4. So just emphasize, there wasn't something that came out of the blue that said look, I mean, the value's lower than what we originally thought going in. So we had realistic expectations, I think, in terms of what an asset in the marketplace could achieve and that goes right back to the initiation of our sale process.

To be frank, we could've gone ahead, if we'd chosen to and sold certain of those California assets. What we did and said is said look, I mean, there's a number of other options in our portfolio, more on the Canadian side, that are frankly going to be a better outcome for us, both from an equity, accretion, etc. standpoint as well as a balance sheet standpoint. And so that was a decision that we made recently here and it's the benefit of having more knowledge and having done more work and analysis. Again, I'm getting some external viewpoints. And so we have the better set of options. We pulled that off a table. That was our decision to be replaced by several other things that we think are going to be more value accretive, frankly.

Ben Pham – BMO Capital Markets – *Analyst*

And can you comment on what could be included in the midstream side of things and the $4 billion? Is that mostly just available for sale investments you have or is that could potentially be beyond that?

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

I think it's probably more on a non-core side as well as things that would be held for trading, available for sale. No secret there. We've got certain equity-type investments but having said that, I want to emphasize that those are not big drivers or big factors from a dollars and cents perspective. And so I think we have the luxury of timing those as when we want to move on those because they're not that big from a size perspective.

Ben Pham – BMO Capital Markets – *Analyst*

Okay, that's just more clean up the edges. Okay. Oh, well, thanks. Thanks, everybody, for taking my questions.

Operator

Our next question comes from the line of Robert Kwan with RBC Capital Markets. Your line is open.

Robert Kwan – RBC World Markets – *Analyst*

Good morning. If I can start just—coming back to the guidance, Tim, you had mentioned some of the things are just kind of more mechanical or arithmetic pushing that year-over-year growth down. What is specifically though, just for budgeting purposes, the WGL close that you're working with right now? Is it a June 30th type date?

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

Yeah. I would define that as mid-year, so that sounds pretty good.

Robert Kwan – RBC World Markets – *Analyst*

Okay, and then just so I'm clear as to when you were talking about what's pushing it around, previously you would've been using a date that was slightly before June 30th?

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

Yeah. I mean, I think we've said certainly as we've met many people over the course of this year, a Q2 outcome is what we still think we're tracking to here. And so when in Q2 I guess is the question. You've got three months in that quarter and a single month of EBITDA can swing things a little bit. So again, Robert, I think it's a mathematical sort of output.

Robert Kwan – RBC World Markets – *Analyst*

Okay, fair enough. And then as well, back to the question around and reiterating kind of your accretion levels. Given the tax reform is really being attributed to the WGL assets, is it fair that, roughly speaking, the accretion that you had previously is down about 5 percent?

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

The accretion for full year 2019?

Robert Kwan – RBC World Markets – *Analyst*

Yeah.

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

No, it's very much what we would've indicated previously. The 10 to mid-teens percent accretion levels—I think, in rough numbers, that we would've said starting in January 2017. There's a number of different factors here, right? I mean, and so there's other key levers here including which asset monetization we're doing, etc. So you can't just say, well, tax reform is a bit more of a nick than we would've originally thought. That must knock down the accretion. There's a number of puts and takes here.

Robert Kwan – RBC World Markets – *Analyst*

Got it. Okay, and if I can just finish on California. So is it fair to say—because it sounds like, Dave, you're talking about your outlook for what these assets could be worth and the cash flows is higher than just based on some of these changes. So is it fair to say that when you looked at the bids and talked with potential bidders that they didn't see it the same way or they weren't at least willing to put that into their bids?

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

No. Not quite. As Tim pointed out earlier, we could've very easily gone forward and transacted on these assets because it was in the range of pricing of expectations that we framed out when we entered into the process. I think it's more of when you look at it in combination of what we're seeing and the activity that's taking place in the California market. Again, some of the things we've done with Blythe and what we'll be doing with Tracy and other assets; those came very late in the year around the August time frame, started to see the impact they had, especially on Blythe really and in that early stage of Q3 through Q4. The activity around Resource Adequacy and the factors is of what we were looking for overall value creation for the Company, we'd say, jeez, we're going to be much better off holding these assets. And we expect them to do better than expected on the post-contract terms, balanced with what else we were contemplating to put into the sale mix for the right financial matrix. That's kind of probably it in a nutshell for you, Robert.

Robert Kwan – RBC World Markets – ***Analyst***

Okay. And I guess just to finish then with that comment, can you just square that comment around stronger expected longer-term cash flows than with the provision that you took at Hanford and Henrietta? And why it would be a write-down?

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

Yeah. I think the provisions at Hanford and Henrietta are relatively small in the grand scheme of things and they're peaking facilities, right? So here's how I would look at the market is I certainly believe peakers will be probably knocked out of the box first because of battery and other technologies. But the nice thing about our peaking facilities is you can turn around and repurpose those with battery technology because they're in great locations. Going back to your question about are we expecting to see stronger cash flows post our contract terms, I think it's premature to state that. I would just say simply this much, as we've made the efficiency moves and other moves with our assets, we've seen a corresponding strengthening in generation and need. And then as well as we're starting to see the onslaught of community choice aggregators which opens up the market to much more customers than just your traditional utilities at the end of the day.

So all those factors coming in is we're just seeing a brighter light get brighter and as much as there is renewable reform within California as there is across really the globe; there's still going to be a need in the dispatch stack for gas and gas—that's efficient and flexible and can provide the appropriate need, will fare very well.

Robert Kwan – RBC World Markets – ***Analyst***

That's great. Thank you very much.

Operator

That concludes our questions for today. I'll turn the call back over to Jess.

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

Thank you, Matthew. I'd like to thank everyone for joining us today. This concludes our AltaGas' fourth quarter and 2017 conference call. Should you have any follow-up questions, Ashley and I are available. Thank you.

Operator

This concludes today's conference call. You may now disconnect.