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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the AltaGas First Quarter 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being broadcast live on the Internet and recorded.

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

Adam McKnight - AltaGas Ltd. - Director of IR

Okay, thank you, Jody. Good morning, everyone and thank you, for joining us for the AltaGas Q1 2019 financial results conference call. Speaking on the call this morning will be Randy Crawford, President and Chief Executive Officer; Tim Watson, Executive Vice President and Chief Financial Officer; and we're also joined here this morning by several other additional members of our executive team.

As always, today's prepared remarks will be followed by an analysts' question-and-answer period. And I'll remind everyone that the Investor Relations team will be available after the call for any follow-up questions or any detailed modeling questions that you might have. This call is webcast and I encourage those of you listening on the phone lines to view the supporting slides available on our website. A replay will be available later today and a transcript will be posted to the website shortly thereafter.

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

And with that, I will now turn the call over to Randy Crawford.

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

Thank you, Adam and good morning. It's my pleasure to welcome you to our 2019 quarter one call. Our first quarter results, which Tim will go over shortly, provide a strong and stable platform for growth and they reinforce to me that our strategy to transform our company to a low risk, high-growth utility and midstream company is progressing as planned. We are executing on restoring our financial strength and aggressively positioning the company to capitalize on the significant organic growth opportunities within our business.

I continue to remain confident in our strategy and in the strength and potential within our balanced asset base. I am excited about the potential of our business. The opportunities appear stronger than ever and we remain focused on executing on our key initiatives to improve our return on assets and provide significant value to our shareholders. To do so, it is imperative that we continue to strengthen our balance sheet to the execution of our asset sales plan and simultaneously, fund the strategic capital projects to further strengthen our competitive positioning in midstream, as well as fund our earnings growth in our utilities business. At the same time, we are leveraging and optimizing our operations at RIPET, as it is a game changer and capitalizing on our structural advantage within our Canadian midstream business.

Within our U.S. utility business, we are focused on initiatives to enhance our returns. Our footprint in the growing U.S. market is enviable, with significant opportunities increase profitable investment. To capitalize on this opportunity, we are focused on continued service level improvement, cost efficiencies associated with AltaGas scale and driving an innovative regulatory strategy.

Our asset sale program has had a very robust response and we are confident that we will meet or exceed the targets we laid out for this year. The sale of our non-operating interest in Stonewall is the first of many positive value creating steps we are taking to position us to unlock the intrinsic growth potential of our core assets. As we announced today, we entered into an agreement to sell our 30% interest in the Stonewall gathering system for approximately USD 275 million or $375 million to DTE Energy. The sale price reflects a 12x multiple on 2019 estimated EBITDA. This valuation compares favorably to recent transactions for gas gathering systems and is accretive to FFO to debt.

In addition, we have a number of simultaneous sale processes underway and we continue to see strong and sustained interest from numerous high-quality counterparties, which is a clear indicator of the value of these assets. We expect further announcement in the months ahead, as we continue to reach our stated asset sales goals. Monetizing these non-core assets, allows us to delever and fund our capital program. And as importantly, allows us to redeploy the funds into our higher returning opportunity-rich core businesses, starting with our midstream segment.

The increasing demand for cleaner energy in overseas Asian markets, positions our RIPET asset as a high value option for Canadian producers. The resulting growth opportunities along our integrated value chain are expected to deliver strong cash flows and returns. The integrated nature of our midstream footprint, which spans the Western Canadian Sedimentary Basin provides upstream producers with access to premium export markets overseas, is a significant competitive advantage for our company and one that is difficult for our competitors to replicate.

Without question, RIPET is the cornerstone asset of AltaGas integrated value chain and of our midstream strategy overall. RIPET is the first energy export terminal for propane off the West Coast of Canada and it will make a significant contribution to international trade and support long-term production growth and prosperity in Northeast DC and Alberta. I'm excited to report that we began the process of introducing propane feedstock to the LPG tank in mid-April, which marked an important and exciting milestone for everyone at AltaGas. The first VLGC is expected at the terminal mid May from which point, AltaGas will officially begin delivering Canadian energy to customers overseas.

RIPET has a structural advantage to serve Asia, with industry-leading economic Montney production over exports from the U.S. On average, a VLGC from Canada's West Coast is able to arrive in Asia approximately 60% faster. This provides a significant advantage to AltaGas and Western-Canadian producers. The Far East Index or FEI, which is a benchmark to the value of propane in Asia has strengthened considerably of late. And we are capitalizing on this opportunity and locking in attractive margins for ourselves and our customers. While these spreads will fluctuate up and down, the opportunity for additional markets for Canadian energy, coupled with the structural advantage of RIPET will continue to provide long-term value to our customers. We have all the supply secured for RIPET for the initial 40,000 barrels per day.

With respect to off-take, we have taken a similar strategy, blocking in sufficient offtake to provide certainty on volumes, but also providing us with the flexibility that wanted to the start-up process. In total, our volume capacity translates into approximately 2 ships per month, with the potential to sell it a few extra ships, operations permitting. One ship per month is committed to (inaudible) and we expect (inaudible) to take the first few ships. This is mutually beneficial as it allows us further flexibility as we begin each stage of operations and provides estimates with greater supply to meet the strong Asian demand for propane.

RIPET in the ability to export propane is the catalyst for further investment in growth in our Midstream complex. This unique capability will provide us the opportunity to handle the molecule through our gathering, processing, fractionation and storage assets. Thereby leveraging our entire value chain and increasing overall returns. For our Midstream segment, in the near term, our new assets in service drive EBITDA growth by 30% to 40% in 2019. And this is only a partial year for RIPET and towns in expansion in the Nig Creek Gas Plant. We see even more growth in the coming years as assets like the second train at North Pine come into service.

Turning to the -- our utilities, our utilities provide steady and predictable returns. Our focus now is to grow those returns and through our determined focus on driving operational excellence, we are making progress. In the first quarter, our EBITDA grew at Washington Gas by 15 million Q1 '18 versus first quarter 2019, which was the result of new rates in Virginia, Maryland, combined with customer additions.

To further enhance our performance, we are taking a more holistic view with respect to how we deploy capital. For example, at Washington Gas, to enhance the safety and reliability of our system, we are exploring initiatives like more focused pipeline replacement projects based on our predictive model, which will increase the efficiency of our capital budget by reducing future leak repairs and corresponding maintenance costs. We are also striving for more timely recovery of our investments by maximizing the use of accelerated rate recovery mechanisms.

In 4 or 5 of our operating jurisdictions, we have accelerated replacement programs that allow us to renew aging pipeline, with capital investments of approximately a USD 1 billion spread over the 5 years that will earn immediate returns. This is a true win-win scenario. In addition, when we see opportunity to expand or enhance the capabilities of our distribution systems, identifying and executing larger strategic projects like the Marquette Connector in Michigan, we can improve service for our customers and help us grow our rate base and associated returns.

Rate cases are sometimes necessary to enable us to earn our allowed return, and on April 22, Washington Gas filed an application with Maryland Public Service Commission to increase base rates and charges for natural gas service for our Maryland customers. The change in proposed rates and charges includes revenue, a revenue increase in base rates of about USD 30 million on a net basis. This filing addressed the rate relief necessary to recover cost by providing safe, reliable natural gas service and continue to deliver improved service to our customers. Given the statutory timeline for the commission, we anticipate the new rates will be effective December 2019.

In summary, a tremendous amount of work is being done to reposition AltaGas as a low risk, high-growth utility and midstream company and we're just getting this ball rolling. We had a strong first quarter and we have built some significant momentum and are on track to meet our guidance for 2019. We are executing on our funding plan as we committed. The sale of our Stonewall gathering system is another step forward toward our stated goal and we are well positioned to make steady progress throughout the year.

We began the process of introducing propane feedstock at RIPET in mid-April, which marked an important and exciting milestone for everyone at AltaGas and our first cargo to Asia is scheduled for mid-May. We are continuing to progress on driving greater returns through accelerated rate recovery mechanisms and our new rates in Maryland and Virginia.

With that, I will turn the call to Tim to review our financial results.

Timothy William Watson - AltaGas Ltd. - Executive VP & CFO

Thanks, Randy and good morning, everyone. Turning to slide 17 and starting with the summary of our Q1 results. Overall, our transformed business, which is now heavily focused on the Utility and Midstream segments performed as anticipated, providing strong stable first quarter results that were right in line with our expectations. The Utility segment was a large contributor in Q1, as we moved through the heart of the winter heating season. Strong Utility's results reflect new capital and rate base growth, along with strong customer and usage growth. In our Midstream segment, strong Q1 results were driven by increasing contributions from the WGL pipelines, our expanding Canadian Midstream footprint and service offering and a strong quarter from our investment in Petrogas.

Before I jump into the numbers, I would like to remind everyone that we will continue to see the effects of both the WGL acquisition and the asset sales in our year-over-year results for the next few quarters. For that reason, I'll continue to provide some additional clarity as I take you through the numbers. Normalized EBITDA for the corporation came in at $466 million for Q1 2019, up $243 million or 109% year-over-year. As I mentioned, our Q1 results reflect strong contributions from WGL and the Midstream business, that were partially offset by asset sales. If asset sales in Q4 2018 and Q1 2019 were excluded, EBITDA would have been up $300 million versus the first quarter last year. Normalized funds from operations for the quarter were $376 million, compared to $169 million in Q1, 2018. Normalized net income was $202 million or $0.73 per share compared with $70 million or $0.40 per share for Q1 2018.

With the cash proceeds of approximately $1.4 billion from the sale of our remaining interest in Northwest Hydro and the sale of certain non-core Midstream and Power assets in Canada, we paid down approximately $1.7 billion in net debt during the quarter. So some meaningful progress on our funding strategy designed to strengthen our balance sheet and regain our financial strength and flexibility.

Moving on to slide 18, and the drivers of our Q1, 2019 normalized EBITDA. Looking at the slide and the drivers of our first quarter performance as expected, the WGL acquisition accounts for much of the year-over-year increase in consolidated EBITDA. Altogether, WGL contributed $303 million in Canadian dollars across our 3 segments, $254 million in the Utility segment, $35 million in the Midstream segment and $14 million in the Power segment. Results from the Legacy, Utility and Midstream segments were also up year-over-year, before asset sales, driven by solid performance and continued organic growth. We clearly benefited from WGL Utility's seasonality. As discussed on the Q4 2018 call in February, our utilities business experienced a significant seasonality associated with the winter heating months, which results in the first quarter, accounting for just a little over half of the annual EBITDA contribution for that segment. As we move into the summer months, the contributions from the Utility segment will be fairly modest in Q2 and Q3, before of course, picking up again in Q4.

Now, I'll dig a bit deeper into our segments. In Utilities, higher firm revenue due to higher rates, strong customer growth and higher usage contributed to WGL year-over-year results, which were partially offset by higher O&M and leak remediation costs. The leak remediation cost to WGL were in-line with our expectations. SEMCO and ENSTAR had increased customer usage and weather at those 2 utilities had of $1 million favorable impact to EBITDA in the quarter. The Utility segment results were also impacted by favorable Canadian U.S. FX rate versus Q1 2018, which contributed $4 million. However, U.S. tax reform had a $3 million in Canadian dollars negative impact versus Q1, 2018. And if including WGL results, Utility's EBITDA would have been $29 million Canadian higher without the impact of U.S. tax reform.

Moving to the Midstream segment, Q1 EBITDA was up 59% versus last year, excluding asset sales. The U.S. operations had a positive contribution from the Central Penn Pipeline as well as higher accrued non-cash equity earnings at Mountain Valley Pipeline based on the cumulative capital contributed. These were partially offset by lower storage spreads and retail gas marketing margins compared to the previous year, and slightly lower Stonewall volumes. Within our Canadian midstream business, year-over-year EBITDA was positively impacted by higher equity earnings from Petrogas with the new Aitken Creek facility in Northeast British Columbia and higher Townsend volumes.

These positive contributions were partially offset by slightly lower realized frac spreads, $17 a barrel versus $90 per barrel, lower NGL marketing margins and the reduced frac exposed volumes at the Younger facility due to outages at nearby third party facilities and lower ownership at Younger. I should note that of the approximate 10,000 barrels a day of frac exposed volumes that we have within our extraction business, there are hedges for approximately 6,200 barrels in place. So the year-over-year impact of any changes in frac spreads on our quarterly results is quite modest, it's approximately $1 million net for the first quarter.

During the first quarter, we received $3 million in preferred share dividends from Petrogas similar to Q1 2018 and $1 million in common share dividends. In the Power segment, excluding asset sales, total EBITDA for Q1 was up $14 million. Positive contributions came from the addition of the WGL Distributed Generation business, totaling $19 million, along with $1 million from a favorable Canada/US exchange rate. These were partially offset by $2 million from the planned spring outage at the Blythe facility and $5 million from lower U.S. retail power marketing margins due to higher capacity prices.

Now I'll pause here for just a minute to explain that there are timing factors at play with capacity charges within the retail power marketing business and more specifically, capacity charges are set in June each year for the following 12 months, which impacts the realized average margins on fixed retail contracts throughout the year. In June 2018, capacity charges increased causing realized margins to decrease in the second half of 2018 and into early 2019. However, capacity charges are set to decrease this coming June of this year, so retail margins are expected to again increase in the second half of 2019. The corporate segment results were lower for the quarter, with a loss of $9 million compared to a loss of $1 million in Q1, 2018. And this was mainly due to higher employee and IT-related costs as we expected.

Lastly, asset sales reduced Q1 2019 EBITDA by $58 million. This included the AltaGas Canada IPO, utility and wind power assets in October 2018, the sale of the San Joaquin power facilities in November 2018 and the Canadian non-core gas and power assets in Q1 2019. The sale of the Northwest Hydro facilities, which was also completed in Q1 2019 did not have a negative impact on Q1 EBITDA due to the seasonality within that business. Overall in the quarter, the higher Canada/US exchange rate, $1.33 versus $1.26, increased EBITDA by approximately $5 million versus Q1 2018.

Turning to slide 19, which provides a summary of our Q1 segmented normalized EBITDA results. Listed on the right, are the key drivers of EBITDA year-over-year within each segment. Since I reviewed most of the drivers on the previous slide, I won't go through this in detail here. That said, I would like to highlight that the largest contributor to our first quarter results was the utilities segment, which accounted for approximately 72% of total Q1 EBITDA before corporate charges. Meanwhile, the Midstream segment made up approximately 23%, and Power contributed 6%. This was inline with our expectations and as I mentioned earlier, we expect just over half of our annual 29 utilitys' EBITDA contribution to be realized in the first quarter due to seasonality in the winter heating season.

Overall, we expect the contributions of each segment to change meaningfully over the coming quarters, as we move into the spring and summer months, but by the end of the year, we anticipate that everything will fall in line with our segmented guidance for full year 2019, which we provided back in December. As a reminder, we expect the Utilities to represent about 50% of total full year 2019 consolidated EBITDA before corporate charges, with Midstream at approximately 37% and Power at about 13% of EBITDA.

Now shifting gears to our capital program and funding plan for 2019. Our balanced funding plan remains on track and we continue to take steps to regain our financial strength, enhance our financial flexibility and optimize our cost of capital. We have a clear line of sight to a significant number of high-quality organic growth opportunities, which reflect the underlying strength of our Midstream and Utilities businesses. A strong balance sheet will allow us to efficiently execute and fund these opportunities, while maintaining our investment grade credit rating.

Moving to slide 21, this disciplined and strategic capital allocation is a very important important focus area for us. You will recall that our 2019 capital program consists of $1.3 billion of the highest quality projects, primarily within our Midstream and Utilities businesses. This includes $30 million to $40 million of Midstream and Power maintenance capital. While our initial opportunity set was broader, the projects we have identified aligned with our focused strategy, provides ongoing organic growth potential, our favorable risk profiles with strong risk-adjusted returns and provide immediate payback. Over 90% of our 2019 project capital will be spent within the Utilities and Midstream businesses where we see the greatest opportunities. We remain on track with our capital program, having spent approximately $300 million in invested capital in the first quarter of this year.

Moving to our funding plan slide, on page 22, our total uses of capital for 2019 are approximately $4.9 billion and were designed to de-lever and stabilize the balance sheet through a combination of asset sales, disciplined capital allocation and a re-positioning of our dividend. The uses of capital include $1.3 billion in capital projects I just mentioned, along with just over $800 million in debt maturities across the enterprise for total funding requirements before delevering of $2.1 billion. The remaining uses of capital are focused on debt repayment. And we have already made good progress in Q1, which I'll come back to in just one moment.

When you add it all up, after funding our $1.3 billion capital program, we expect to pay down approximately $2.7 billion in debt this year including, $560 million of net debt maturities. This is before any hybrid capital securities preferred shares, or any new term debt MTN issuances by AltaGas, which we will consider on an opportunistic basis. These additional financings would bring total debt repayments to in excess of $3 billion for the full year.

Now, moving on to slide 23 as I just noted, we could potentially exceed $3 billion in total debt repayments this year depending on the proceeds from our asset sales in other financings. We are very confident in our ability to execute on our funding strategy and we've already made substantial progress since 2018 year-end. With $1.4 billion of asset sales in Q1 2019 from the remaining interest in Northwest Hydro facilities as well as certain non-core midstream power assets in Canada, we used the proceeds along with the cash generated from our strong Q1 results, to pay down approximately $1.7 billion in net debt this past quarter. This brought the net debt down from approximately $10 billion to $8.4 billion as at the end of March.

So, put simply, we are already more than halfway through our year-end target for debt, and we remain on track to monetize an additional $1.5 billion to $2 billion in assets through the remainder of 2019, with an expectation at the high end of this range. And as Randy mentioned, we have already signed an agreement for the sale of the Stonewall Gas Gathering System in Q2, 2019 and we continue to see strong interest from numerous other high-quality counterparties on the other sale processes that we have currently underway.

Our investment grade credit rating continues to be fundamental to our strategy. As you know, it provides us with greater financial flexibility and a stronger cost of capital, supporting growth going forward. We designed our 2019 capital and funding plan with a very clear goal of maintaining an investment grade credit rating. Our capital and funding plan along with a lower risk profile of our overall business mix, the previous dividend reduction and optimized operations overall, will all contribute to improving investment grade metrics over time.

And as we've discussed in the past, we expect our credit profile to improve over the coming years, as we execute our growth capital program and new projects come into service. Our 2019 capital and funding plan remains on track and we expect our metrics to support our investment grade credit rating. In summary, we are very confident in our ability to execute on the remaining sales, which will help support our funding plan and credit profile. We are actively working to ensure that we receive the greatest value for these assets for our shareholders.

Finally slide 24 reaffirms our consolidated outlook for 2019, which we previously announced on December 13 of last year. I'm not going to run through the numbers again, but I would like to reiterate that our strong Q1 results put us on solid footing, with respect to achieving our consolidated normalized EBITDA guidance range of $1.2 billion to $1.3 billion. Our 2019 guidance assumes an average Canadian/US FX rate of $1.32 and as a reminder, for every $0.05 change in that FX rate, there is an approximate $35 million impact on 2019 EBITDA, which represents less than 3% of total expected EBITDA for full year 2019.

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

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen, we will now conduct the analyst question-and-answer session. (Operator Instructions) Your first question comes from the line of Ben Pham of BMO. Please go ahead.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

I wanted to ask, with the Stonewall's failure, your thoughts on strategic initiatives and in the area, you are on a path now where you're looking to reduce WGL Midstream exposure or are you -- haven't decided on that yet? And then are you potentially meaning to open for the long haul pipes, gas processing opportunities when you look at the overall next 5 years?

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

Ben, this is Randy. Yes. No, look, we're obviously pleased with moving forward with the Stonewall asset sale. And when I look more strategically, currently, we see the significant opportunities in our Canadian midstream business. But as I've said before, as we look at leveraging our WGL large demand and asset, that we will continue to evaluate investments in our midstream businesses going forward. At this point in time though, I think that's a longer-term strategy for us and we're focused right now on executing on our RIPET, in driving the real value across all of the value chain here in the Canadian midstream at this point.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

And then you mentioned about maximizing your returns going forward whether it's Midstream or Utility and I'm more curious, you've just given the return differences between utilities, you're generating 9%-10% levered return and there's a slide there, readily you can earn a 6 times build multiple in it. How do you think about adjusting that for risk between this specific disparity and return profile?

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

Sure, Ben. As I've said before, I look at this as a barbell approach, a very balanced approach on a risk adjusted basis and low risk utility with growing cash flows is an excellent business and one where we feel is appropriate to continue to apply capital going forward. In that managed with a growing annuity business and a faster growing Midstream business. In my judgment, is a good balance going forward on a risk adjusted basis. So focusing the organization around those 2 businesses, I think is going to overall drive better returns for our shareholders going forward.

Operator

Your next question comes from the line of Robert Kwan of RBC Capital Markets. Please go ahead.

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

Just with the strong asset valuations that we're seeing out there, especially for contracted assets and you have now shared with Stonewall, I'm just wondering if you, Randy, you got some updated thoughts given where you are with Stonewall and the increased visibility on other assets as you go through the process, really kind of the idea of, what's your interest in materially exceeding the $2 billion target with the goal of leaving no doubt on the credit rating and maybe trying to earn an upgrade versus the trade-off of those sales possibly, being dilutive to cash flow per share?

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

Sure, Robert. I think with the announcement today demonstrated that we are focused on achieving our goal and demonstrates that we are not going to sell our assets without getting fair value and we're encouraged with the value as I mentioned in my prepared remarks with the assets going forward. So look, we're going to stick to our guidance. We're as confident that we will execute on that plan and as I've said before, we are focused on not only -- we want to meet our expectations obviously, but focusing on exceeding those. So we're optimistic, and we see good value in these assets and in terms of focusing on the credit rating, we'll continue to, see how the market evolves, but very confident in where we're going, I mean, to the extent that we see that would be helpful. But I think the core issue for us is that we want to redeploy these funds as well into some of these higher returning investments. So it's a dual approach, clearly maintaining our investment grade and reducing our cost to capital is key. But we also want to ensure that we can deploy these funds in these higher returning assets.

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

Got it. I guess if we look at the Power business given your, you've got pretty good visibility on what the midstream valuations are. How are you approaching that given the mix that you've got, you've got some, some higher-end of the valuation spectrum assets when you look at the WGL contracted businesses, but then you've got kind of Blythe in California and the retail energy at the other end of the spectrum. Lastly, if you can just comment on how battery storage you see fitting in given, it looks like you're on the path to another contract in California?

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

Yes. Well, as I told you before, we are in many processes and with a great deal of interest in, and I wouldn't be surprised if some of our power assets are included, but we are seeing obviously some increasing power prices in California. The assets with the battery storage are our valuable assets.

But overall, I want to -- you focus our corporation, our company on really driving the value around our low risk utility and growing cash flows in our Midstream business. But I think that as we look forward, all of our assets have a good bit of value in the marketplace and that includes both the DG Business as well as the battery storage. But to answer your question directly, this is a focused company around growing its Midstream and Utility business.

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

Okay. Maybe, I can change to something a little granular, you talked about for RIPET, the first few ships will be (inaudible). Are you -- in terms of how those economics work, does that mean RIPET, it's going be a little back-end loaded into the second half as it relates to how you book it at the AltaGas level?

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

No, I don't think, no, I don't see that, Robert, we're going to be scheduling 2 ships a month and so, we would be reasonably consistent as to when those ships leave, that's when you recognize the sale. So I think that would be relatively consistent. Obviously, we're going to work on logistics and into the attempt to do more than that, but that's consistent with our plan.

Operator

Your next question comes from the line of Linda Ezergailis of TD Securities. Please go ahead, your line is open.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Maybe you can just help us navigate your criteria for which assets you might choose to sell versus not obviously, you want to get the best price received. But how does other attributes in terms of speed to execute ease-of-sale degree to which asset is left core-less strategic credit considerations or other considerations? How do you weigh those and balance those trade-offs when you look at it given potential transaction?

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

Sure. I -- when we look at our asset sales, the first criteria is the definition of non-core. And I think I've done the best like to describe what those assets would be. Secondly, looking at the valuations in terms of the market, the liquidity and the value in the marketplace and to that extent, we run through that criteria to ensure that they're accretive to our FFO to debt. And so I think that as we've looked at this, the first is we want to focus our cooperation on driving the Midstream and Utility businesses, which is core. The remaining assets we go through a criteria in terms of the valuations and going forward, and the ability to transact. And so I think that -- it is this dynamic criteria, but we have -- we're fortunate to have some very valuable assets within AltaGas that we have defined as non-core, that we can redeploy those funds into our core assets. So, I think that's how we generally work through that criteria.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

And just another kind of process question I guess, can you give us a sense of how you're going to approach your long-term planning going forward? When will the Board refresh your strategy and long-term plan with the management team? And when might you communicate that to the investment community? That's just helpful to know kind of how we can expect your communications to unfold over the next year?

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

Sure. From a process standpoint, with the Board, we will review our strategy into October of this year, we will present our strategic direction. We will move into approving our capital budget and our plan into December of this year and so, those are the key months that we are looking at first strategy and then ultimately, our business plan into 2020, that the board would approve going in at the beginning of December.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Including the dividend as well?

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

Yes, definitely. Yes, we'll -- they'll look at that. Obviously we look at that each quarter and that's a Board decision, but certainly, when we look at 2020 and we look beyond and we give guidance, that would be a consideration as well.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Just another quick process question. Now that the WGL acquisition has been increasingly integrated, I'm wondering if AltaGas might be changing its approach to regulatory applications, either for the WGL utilities or conversely, do you see any sort of best practices within it WGL that you'll be able to apply to the legacy AltaGas utilities?

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

I -- obviously, we're looking across all of our scale, all the Utility businesses, there are some excellent best practices at WGL. But I would also say that SEMCO and ENSTAR have done an excellent job in running their business in an operationally excellent manner. And so we're always focused on continuous improvement, improving our service levels and our operational excellence model. And so, we are looking at that for innovative regulatory strategies across all of the utilities, how we -- you'll get more timely recoveries as well as increasing our overall returns. So, I think that as you look forward, you will look at us to continue to look at how we leverage scale, execute the integration and improve our service levels and returns. And so, more to come on that but absolutely, there's WGCL acquisition is an excellent utility in the people there and the personnel across all of our utilities are excellent professionals and will continue to drive continued profitability and growth going forward.

Operator

Your next question comes from the line of Rob Hope of Scotiabank. Please go ahead.

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

Just, I imagine we can see some volatility there just given the amount of ships that will be leaving on any given month. So when you look at Q2, we got the first one in May, is the expectation that we'll get 2 in June or how should we think about the ramp there?

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

You are, our going on plan is that, and again, we're just starting up is that we would do -- plan to 2 ships a month. And so we would look at in terms of May, executing on that plan mid-May and then the end of May and to the extent that we can continue to improve the logistics and we will get better and we will get better and we will continue to improve, but we would work toward that, now could they go over a few days from the end of the month to end of June and such like that, we'll -- and there's always that possibility, but we'll continue to focus on the logistics and hitting our 2 ships a month beginning in May.

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

And then when you look at logistics, where do you see the largest risks there, is it on your side or is it rail access?

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

I think we feel comfortable, we've firmed all of that up, including the rail. It's really about can we exceed our expectations, can we handle the logistics and offload the rails faster and safely and can we get to, if you do the math, can we do a bit more than 2 ships and really, that's just about us and logistics around the rail and the offloading and obviously, we're just getting started here and we feel really comfortable with what we've laid out, but we're going to try to do better and it is around the logistics in the rail.

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

And then just as we look at asset sales through the balance of the year, is the expectation that we could see some additional process come to a conclusion in Q2 or do you think it will be more back-end loaded into the year?

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

Yes, you know, but -- it's as I've said I -- we're not going to drive these processes around quarterly announcements, by definition, their processes and we're going to say and focus on executing in the calendar year. We could very well have processes and before our second quarter call, but we may not. And so, I think that's -- my guidance would be that we will execute through the year. It's difficult to me to predict exactly when those will conclude. But I can tell you that we are going to maximize the value and we're optimistic about the counterparties and the assets that we are involved in currently. Timing, it's difficult to give you an exact timing.

Operator

Your next question comes from the line of Maura Shaughnessy of MFS Investment. Please go ahead.

Maura Shaughnessy

Couple of questions. The first one is something when you and I've chatted about when we're evaluating the situation with the utilities and we look at the different states, we still don't actually have the idea of where -- what kind of returns you're actually achieving and given that WGL had a bunch of asset monetizations flow through their income statement as well, that on a real apples-to-apples utility earned, to assess in -- for example, this recent case that you just filed the potential upside in numbers or not. And so wondering when we are going to specifically see what you're actually return -- earning per state. And then over time, what kind of rate base growth expectation would you have? So I know you're relatively early in this job and then WGL numbers were a little mushy, but those -- to be able to evaluate your progress, we need to know what the utilities are actually earning ex-asset optimizations?

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

Yes, fair question, but I would tell you that we certainly can -- if you go through that and you can do that in the IR team could go, because I mean, we have specifics of what the allowed returns are in the utilities. We can break that rate base down and clearly, that's a focus of ours and in each particular rate case and I mentioned the Maryland rate case, is focused on a 10% return on equity. You can see the differential is a $30 million increase that we're requesting to achieve that returns. So I think that's clearly an indicator of what we need to do that. We've got a Virginia rate case pending in the request for the -- revenue increase will tell you what, the gap will be. And so I think we can certainly provide it in that then, but clearly, when we make those filings, we are clearly representing what the differential is between our current return and what the allowed return would be.

Maura Shaughnessy

But on some of your [brother] and obviously, more the U.S. utilities, I picked up a slide deck, Exelon's call is going on right now and I can see with a trailing 12 months return is in every single one of their utilities by state, and is that something that we are -- we can look at right now ? Or something that we will hope to see over time?

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

Sure. I -- look, I think we'll take that counsel and we can do that. I mean, we absolutely know what our returns are currently and where we are headed and we can, we can get you that information. And certainly, I don't think it's a, in terms of when we're going to get there, we can talk about the timing, but giving you exactly where we are in the differential is something that we can absolutely do and provide you.

Maura Shaughnessy

Okay. And second question is, the company has guided on an EBITDA basis over time. I'm not sure what EBITDA gets us at this stage of the game? That's what MLPs and Midstream and since MLPs are going the way the dodo bird, I'm not sure when EBITDA guidance gets us. When are we going to get an earnings guidance from the company?

Adam McKnight - AltaGas Ltd. - Director of IR

Yes. You do know Maura, we do have a midstream business but I --

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Maura Shaughnessy

Yes. Yes.

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

But I think you're -- but I think --

Maura Shaughnessy

But you don't have an MLP business --

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

It's fair point. Now, we -- look in terms of the ETFs, you saw the numbers in the actuals here today. I think that we will get to there. And one of the reasons is with the asset sales and the tax issues and the noise that's going on, I think that we've been wanting to -- in terms of guiding real cash flows, but you'll see us come here as we -- as we execute through this year in the asset sales, it's absolutely a key driver for us. Earnings per share and the growth in earnings per share and you should expect us to -- in the next couple of quarters as we get through these asset sales, to then turn our attention to providing EPS guidance as well.

Maura Shaughnessy

And last question, it's a little bit of a 2 box question. So in the expectations this year, there were some expectations, I'm assuming not much on MVP and also on the connector, the Michigan project, both potentially in the fourth quarter. Obviously MVP, the likelihood of it getting -- despite it's fact as (inaudible) mentioned your former employer had mentioned that it's already 80% done, but we know that there's been some issues there. What is in the guidance for those 2 projects, for this year?

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

With respect to the Marquette Connector, that is a -- we expect that to be in service in December. So we have no -- in the current guidance for 2019 with respect to the Marquette Connector. And similarly for MVP, with respect to a small amount as you know with AFUDC that is recorded as it's being built, but nothing in terms of guidance on either of those 2 in 2019.

Maura Shaughnessy

Okay. And obviously, there's been a lot of comments from the folks that are actually doing the project, but any further comment since you were instrumental in it in the beginning, on MVP and then also, people forget that you guys own 10% constitution, which we thought the project was dead and now with some recent rulings and perhaps not, so any comments on constitution as well?

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

Yes, it -- with respect to MVP, I certainly don't want to get out in front of my (inaudible) company. But look, I obviously believe that is a solid project and is a much needed project for the basin and makes a lot of sense. As you said there, they're well on their way. There's a couple of regulatory issues. So now more broadly, I fully expect that pipe to be built and to bring real value to customers in our investment as well. Certainly the timing is a bit challenged. We'll see how they execute. But again, an excellent project, it will get over the goal line. Timing is key, I would point out from our perspective at AltaGas. We have a cost cap and so we're insulated from that perspective. With respect to the constitution, we continue to monitor that and I don't have a lot to comment on that until we see how things move forward and, but certainly maybe more to come, but at this point, I defer on exactly where that's headed at this point.

Operator

Your next question comes from the line of Patrick Kenny of National Bank Financial. Please go ahead.

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

Just on RIPET here, I know you don't want to give away too much on the contracting front, but wondering if it's possible to get an update on roughly what percentage of the initial 40,000 barrels a day of capacity is currently under tolling agreements? Or I guess another way to ask it is, what portion of the EBITDA run rate is currently exposed to commodity prices?

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

You know what, I think that with respect to that your question on the tolling, I believe we're in the 20 plus percent range on the tolling, with respect to the differential business. We are actively hedging that going forward and I don't have the exact hedging. But you should expect us to lock in the majority of that over the next few months as we move forward. So I think that we're confident in our guidance this year, we're even looking into 2020 and you clearly saw in our comments about the RIPET advantage. And so we're minimizing our volatility in earnings through that. And my expectation is that as we continue to see the advantage of RIPET and the producers continue to move more propane to this valued market, that will continue to move more and more into a tolling structure and the interest continues to increase.

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

Appreciate that color. And then, just given the modest incremental capital required to basically double the capacity, would you need any tolling agreements to sanction the next 40,000 barrel a day expansion or is it just a matter of [keying] off the logistics at this point?

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

Yes, it's really the latter from a business model standpoint, it's a [center] that we lock and toll the majority of our current capacity given the small marginal investment to expand the project. We certainly would be able to, to move forward more propane and hedge that differential going forward. So I don't believe that to be a restriction going as we look forward.

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

And one last question on RIPET here and is there a minimum percentage of volume that you would like to have sourced from your own Midstream assets? And I guess where I'm going with this, looking at your minority interest at Younger, curious how much propane currently stems from Younger?

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

Go ahead. Randy, you can --

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

It's Randy Toone. Right now, we actually are not sending any of our Younger volume to RIPET, it's just logistically it's tolling, challenging to get it out of Younger, but a big portion is going to be coming from North Pine. And as you know we are expanding North Pine, so we do see a volume source out of the North Pine facility growing over time.

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

And let me just add to that, that you asked a question about how much would we like to source from our assets, that would be 100%. I'd like to.

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

You'd like to. Yeah, but is there a minimum percentage of volume that you need -- or not need, that you'd like to have sourced ?

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

Yeah, I mean again, I think that Randy answered it in terms of as we expand North Pine from 10,000 barrels to 20,000 barrels overall, we want to be able to and we are maximizing all of the molecules that we handle and sending the marginal molecule to RIPET. And as I mentioned in my prepared comments, the opportunity in the uplift that both our customers and where we see this certainly have real value.

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

Got it. And then just moving down to Ferndale I guess. Given the performance of Petrogas where Q1 exports above the 40,000 barrel a day capacity there or is there still more upside potential as volumes continue to ramp-up?

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

Yes, I -- we don't operate that facility and so it's difficult to me to give you a specific answer on the exact, the volume data, we can get that for you. But overall, I think the macro theme that we're talking about in the tailwinds for the industry, the fact that the marginal molecule in Canada and I think even in the U.S., is focused on export is the best value market and so, I think that you'll continue to see that growing. But again, we -- that's why we saw the results in the first quarter, but we'll have to get back on exactly the amount of ships and the optimization model.

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

And then switching to Blythe, given we're almost a year away from the contract expiry there and of course assuming, you don't sell the plant before then, any update on storage enhancements or other optimization initiatives ahead of trying to re-contract the facility?

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

Yes, I think we are up -- we're looking at the California, the capacity model. We see Blythe as a key component into the CAISO system grid and into SCE, Southern California Edison and so we're obviously looking at post and in negotiations about the contract expiration and looking at different opportunities to continue to contract that going forward. So yeah, we are looking at the overall market, we think it fits well into the grid. But we'll continue to update you as we'll move forward.

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

Any color on how you guys handicap the, the current EBITDA post contract expiry, just from an internal perspective?

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

You know I -- it's -- I really not like to get ahead of ourselves on that. I think that we look at the California market, the capacity value, the merchant issues and we've got to make some strategic decisions as to whether we move forward in a variety of different ways. My bias obviously is to contract this and consistent to where it is on an annuity basis, but I think that we're working very hard and the team is -- to extend that contract or at least to look at a different structure, So I -- it's difficult for me to give you specific guidance at this point.

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

And then just last but not least, maybe for Tim, just on the 5.5 times debt to EBITDA guidance risk. Thanks for clarifying the treatment of the preferreds. But I guess just to confirm that, that 5.5 times ratio by year-end does assume you issue another $660 million of prefs or hybrids by the end of the year?

Timothy William Watson - AltaGas Ltd. - Executive VP & CFO

No, it doesn't, that chart I think that I did show the sources and uses, the hybrids and other securities where call it opportunistic I guess, that's the way to describe it.

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

Okay. So it just includes the current outstanding preferreds and then if the rating agencies only give you say 50% equity treatment for the prefs outstanding, with the investment grade credit rating still hold, with an adjusted debt-to-EBITDA ratio of closer to 6 times call it?

Timothy William Watson - AltaGas Ltd. - Executive VP & CFO

Well, we fully account for and we try to obviously match the way that the various agencies make their adjustments and by the way, Patrick, they're not all. Each agency does things a little bit differently, but on the subject of equity treatment for things like preferred shares, we would most certainly be reflecting that treatment in our calculation. So when we say, our expectations are in the mid-5 times range, that accounts for that.

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

That already includes 50% equity treatment.

Operator

(Operator Instructions) And the last question comes from the line of Robert Catellier of CIBC Capital Markets. Please go ahead.

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

Congratulations for getting it up and running on time, on budget. I did have a quick follow-up there. I'm just curious as to the downstream pull it can have in terms of incenting additional investment opportunity, North Pine is already expanding, but is there any other potential expansion that service both the existing capacity, as well as the future opportunities of RIPET were to follow through with its expansion potential? Can you just characterize or quantify that a little bit?

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

Sure. Robert, as I said, RIPET is a cornerstone asset for us and our team has done an excellent job of getting it -- moving it forward on time, on budget, as you said. With respect to the commercial aspect of this, we clearly are looking to leverage our asset footprint further downstream in our fractionators, and we're in obviously numerous discussions with many producers to allow them to take advantage of this higher valued market and really, with the Canadian lack of [egress] every penny counts and our business model does share and to help the producers monetize that vast economic reserves. So I think that will lead ultimately to further investment in the years ahead, consistent to our business model and actually that if you look at the multiple of EBITDA and how we make those investments, you can certainly quantify that, but again, we're looking out in the future years and we've got a lot of expansion projects that are going to come into service later this year with our towns and facility, increasing our processing capacity in our North Pine and I don't have any further guidance beyond that, but I will tell you that given our business model and our discussions with producers, that we would expect in the years ahead to continue to grow our business.

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

And just in terms of where that investment might be made with respect to how your system stands today, the assets that you have, are you more likely to expand the liquids handling side or the gathering and processing?

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

I think we'll be -- think you'll see us expand in -- more in the deep-cut processing and in the fractionation. Fractionation of adding more value to our producers in the deep-cut and obviously, across the whole value chain as well though, because that leads more gathering, more pipes into our processing and ultimately, into our fractionation and storage. So along all of the value chain.

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

Okay. And then, just I wanted a confirmation that there is in fact a 40 megawatt storage project with [FCD] and what the CapEx might be for that and whether it's -- any contribution for that in your existing CapEx plan?

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

At this point. No, there is no, and nothing in this year would be more of a -- if we move forward ultimately, that project is, it is a real -- it is a good project, that would be next year -- in the next year's CapEx. An excellent opportunity for us, but it's really into next year.

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

And what's the relative quantum do you think?

Timothy William Watson - AltaGas Ltd. - Executive VP & CFO

About $50 million.

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

Yeah. About $50 million.

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

And finally, there is an allowance for doubtful accounts, this quarter, it looked to me a bit bigger than usual. So I mean, it's not an uncommon thing to have in this midstream business but I'm wondering if it was a single customer or accumulation of different charges?

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

I would say, there is absolutely no issues or concerns that we have, particularly as we look at our client base across all of our business lines and as it relates to Midstream, we think that the health of our counterparties is actually very strong, so there was nothing specific for that and I wouldn't read anything into it. In fact, we look at investment grade and other credit quality for all our counterparties and it's probably stronger than it has been in some time.

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

But it wasn't a concentrated chargeable for all one-off item or anything?

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

No, it wasn't.

Operator

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

Adam McKnight - AltaGas Ltd. - Director of IR

Thanks, Jodie. That concludes our call for this morning. But I'd like to thank everyone once again for joining us this morning and for your interest in AltaGas. As a reminder, the Investor Relations team will be available for any follow-up questions that you might have. Enjoy the rest of your day and you may now disconnect your phone lines.

Operator

This concludes today's conference call.
