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AltaGas Ltd.

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CORPORATE PARTICIPANTS

Adam McKnight
AltaGas Ltd. — Director, Investor Relations

Randy Crawford
AltaGas Ltd. — President and Chief Executive Officer

James Harbilas
AltaGas Ltd. — Executive Vice President and Chief Financial Officer

Randy Toone
AltaGas Ltd. — Executive Vice President and President, Midstream

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

CONFERENCE CALL PARTICIPANTS

Rob Hope
Scotiabank — Analyst

Ben Pham
BMO — Analyst

Linda Ezergailis
TD Securities — Analyst

Robert Catellier
CIBC — Analyst

Robert Kwan
RBC Capital Markets — Analyst

Julien Dumoulin-Smith
Bank of America — Analyst

Patrick Kenny
National Bank Financial — Analyst

Andrew Kuske
Credit Suisse — Analyst

Elias Foscolos
Industrial Alliance — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the AltaGas First Quarter 2020 Financial Results Conference Call. My name is Julianne, and I will be your Operator for today's call. All lines have been placed on mute to prevent any background noise.

If you have any difficulties hearing the conference, please press *, then 0 for Operator assistance at any time.

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

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 — Director, Investor Relations, AltaGas Ltd.

Thanks, Julianne, and good morning, everyone. Thank you for joining us today for the AltaGas First Quarter 2020 Financial Results Conference Call.

Speaking on the call this morning will be Randy Crawford, President and Chief Executive Officer; and James Harbilas, Executive Vice President and Chief Financial Officer. We're also joined here this morning by Randy Toone, Executive Vice President and President, Midstream; and Blue Jenkins, Executive Vice President and President, Utilities and also Washington Gas.

As always, today's prepared remarks will be followed by an analyst 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 modelling questions that you might have.

Presentation slides have been made available for today's call, and they can be accessed through our events and presentations webpage. But I'll remind everyone that today's prepared remarks will not directly follow the slides that were provided. A replay of the call will be available later today, and a transcript will be posted to our website shortly thereafter.

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

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

Randy Crawford — President and Chief Executive Officer, AltaGas Ltd.

Thank you, Adam, and good morning, everyone. I want to take a moment to extend our deepest sympathies to all of those who have been personally affected by the COVID-19 pandemic. The world is facing a challenge unlike any in modern history grappling with the tragic global pandemic. And we remain focused on doing our part by continuing to provide our essential services to our customers.

Our team is laser-focused on ensuring delivery of vital clean energy so our businesses and customers can continue to move forward with their daily lives to the greatest extent possible during these challenging times.

The foundation of AltaGas core values is built on an unwavering commitment to doing what is right. During the state of emergency, we have suspended disconnections and waived late fees to ensure our 1.6 million customers have access to natural gas regardless of their economic circumstances.

We fully recognize the strain on the frontline health care workers and the most vulnerable in our community. And we have committed to provide more than $1 million in donations to help support their efforts and needs. Our hope is that these steps will help our communities through these unsettled times and return from this pandemic stronger than ever.

It is during these difficult times that our core values focused on leadership, innovation, adaptivity, resilience, and excellence shine through. I take a great deal of pride being part of this organization.

At AltaGas, our employees understand the mission and have come together to exhibit these characteristics over the past several weeks. I'd like to take a moment to thank all AltaGas employees for their continued focus, hard work, and execution during these challenging times. They are this company's greatest asset and why I am confident in our ability to deliver on all of our expectations to our customers, shareholders, and other stakeholders.

As we focus on execution, the safety of our employees and the community is always our number one priority. To ensure that our critical operations continue to operate safely and remain available to serve our customers, we implemented several safety measures to protect the health and safety of our people.

Thanks to the excellent response of our leadership team and the planning and coordination of our teams across the organization, we were able to mobilize our workforce and protect our people with limited disruptions to our daily business.

Over the past several months, AltaGas has continued to execute across the board. Our distribution and midstream systems continue to perform in line with our excellent safety and reliability standards.

The capital investments we made to build a stronger pipeline and technology infrastructure has allowed us to leverage automation and manage the work remotely, minimizing our in-person interaction.

One of the most important core values is our commitment to operational excellence in all that we do. Our operations and construction teams continue to perform exceptionally, keeping our construction program on schedule and on budget.

AltaGas financial performance for the first quarter reflects this strong operating performance across all our businesses. So let me turn to our strategic focus, which remains unchanged.

The stable and predictable cash flows of our Utility business combined with our higher-growth Midstream assets provides a unique investment proposition. The quality and diversification of our assets positions us to deliver sustainable, attractive risk-adjusted returns over the long run.

At our utilities, our focus has been and will continue to be on delivering an excellent value proposition through safe and reliable systems and excellent customer service.

The importance of the capital investments that we have made over the past several years have resulted in significant value during these difficult times. These investments, including the utilization of accelerated pipeline replacement programs, has made our infrastructure stronger and has improved our ability to efficiently deliver affordable, reliable clean energy to our customers.

While we continue to monitor the COVID-19 situation, our capital investment program remains on track. The investments that we are making today are expected to provide meaningful customer benefits over the coming years. The flexibility provided by our annual pipeline replacement program mechanism, combined with our operational cost-effectiveness, has helped position our utility to meet its financial commitments and continue to make long-term investments during this uncertain time.

Our commitment to delivering on the objectives that we have previously outlined to date has resulted in a $6 million reduction in operating cost year over year and a 19 percent reduction in the incoming leak rates. We attribute this success to our collaborative and forward-thinking relationships with our stakeholders and our regulatory commissions. The collaboration and forward-thinking of our state commissions has enabled us to improve our delivery systems and better prepare us for these unprecedented times.

We continue to expect to generate significant customer and shareholder value over the coming years. Our utilities strategy is centred on safety and reliability, capital discipline, growing the rate base through accelerated programs, and reducing cost.

We continue to drive towards a performance-based culture to further enhance our capital efficiencies and returns while maintaining affordable rates for our customers.

In 2020, we expect over 10 percent earnings growth in our Utilities segment, underpinned by approximately 8 percent to 10 percent rate-base growth, higher achieved returns through rate case settlements in 2019, increased utilizations of accelerated replacement program, lower leak remediation and operating cost, and improving our customer experience.

Similar to the Utility, our strategic vision at Midstream remains unchanged, and we believe the market opportunity for exports has never been greater. In times when producers and consumers are dealing with the challenges of economic uncertainty and lower energy prices, we expect to help ease these impacts on customers by providing a much-needed market through our RIPET and Ferndale facilities.

Our priority for 2020 continues to be about execution at our core businesses. Our Midstream team had another terrific quarter, achieving record railcar offloading and vessel-loading rates at Ripon. Despite rail blockades and the global health crisis, we loaded six ships in this quarter, keeping us on track to achieve our export goals of 50,000 barrels per day by year-end.

We continue to see strong and stable demand in Asia for Canadian propane exports with 50,000 barrels per day of supply secured as of April 1st and approximately 33 percent under long-term tolling agreements, demonstrating that our unique value proposition to deliver on our global export strategy is resilient and sustainable.

We further expanded our integrated strategy in the first quarter with the completion of North Pine and Townsend 2B expansions. Both expansions started flowing gas in April and will continue to contribute to earnings in the second quarter, and we added additional capacity for rail terminal at North Pine to handle the additional volumes.

We firmly believe our strategy in the long-term fundamentals of the Montney basin. Strong economics of the Montney are positioned to continue to attract capital once the supply and demand stabilize. And our market diversity and access to higher-value Asian markets will remain critical to Western Canadian producers.

With the significant recent growth in our supply commitments and tolling volumes and with our partnership in Petrogas, we continue to build a business focused on exporting and enhancing our complementary Northeast BC strategy. Our RIPET terminal and our future ownership in Ferndale has the capability to provide 120,000 barrels of LPG export capacity of cleaner energy to Asia.

We continue to believe in the long-term fundamentals of our structural shipping advantage, which provides us great confidence that our facilities remain highly utilized to connect North American production to the demand in Asia.

The recent demand destruction we have witnessed in North America highlights the need for access to global markets. Our ability to provide producer market alternatives, including significant access to global markets, further distinguishes AltaGas in the Canadian midstream space. While the COVID-19 pandemic has created significant uncertainty throughout the economy and resulted in a significant decline in energy prices, our Midstream business is well positioned to continue to deliver on its objectives and its commitments.

We do not currently expect any material financial or operational impacts as a result of the pandemic. Additionally, as a result of the actions that we took last year, our RIPET output is 85 percent hedged, including firm commitments for 16 cargos. And we continue to see strong demand for the remaining spot cargos.

Our Midstream business is fully funded, and we see a capital-light program going forward that will position us to harvest additional cash flows into the future going forward. Despite the current economic challenges, the strength and diversity of AltaGas' underlying business positions us to deliver on our forecasted financial results and guidance, while at the same time maintaining our investment-grade ratings and, most importantly, continuing reliable delivery service for our customers.

In summary, AltaGas remains well positioned to continue to execute both the near- and long-term horizons. Over the past year, we have focused on building a business that is resilient and able to deliver operational and financial stability for our customers and shareholders. We remain laser-focused on extending that track record today and every day.

Even throughout these unprecedented times, AltaGas maintains ongoing access to capital, which reflects the strength of our balance sheet as well as the overall resilience of our underlying business.

We're a strong, diversified energy infrastructure company with strategic assets and ample investment opportunities in our Utility and Midstream businesses. We offer tremendous value to our customers, communities, and shareholders, and I am confident that we will get through this current challenge on solid footing.

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

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

Thanks, Randy, and good morning, everyone. During the first quarter of 2020, AltaGas revised its reportable segments to better align with our core focus areas in Utilities and Midstream. Our WGL retail marketing business now rolls up under Utilities and all remaining power assets are included in the Corporate Other segment. Prior-period segment information has been restated to conform to the current reportable segments.

As you can see from our financials, we saw strong first quarter results from both the Utilities and Midstream segments, with the Utilities segment accounting for approximately 75 percent of normalized EBITDA. Consolidated normalized EBITDA came in at $499 million, approximately 4 percent higher than Q1 2019, which is right in line with our expectations and gives us a solid start to 2020.

Excluding the $34 million reduction in normalized EBITDA associated with the $2.2 billion in noncore asset sales that we executed in 2019 to strengthen the balance sheet, our first quarter normalized EBITDA would have increased by over 11 percent compared to 2019.

First quarter growth was driven by strong operations at RIPET inclusive of a one-time realized hedging loss of $6 million related to supply volumes, which were not sold until April, and growth in the Utilities segment of $34 million from all of the rate case work that was completed in 2019 as well as increased revenue from accelerated pipe replacement programs.

Normalized net income was $229 million, or $0.79 per share, up approximately 3 percent over Q1 2019. This increase is due to the previously referenced EBITDA growth along with lower amortization and depreciation, as a result of our 2019 asset sales, and a $23 million reduction in quarterly interest expense. These were partially offset by higher income tax expense during the quarter.

Strong operating performance in the Utilities and Midstream business also flowed through to normalize funds from operation, which was up approximately 12 percent year over year to $420 million.

First quarter FFO also benefitted from lower interest expense driven by both lower average debt balances due to repayment of debt and lower average interest rates.

On March 31, 2020, we completed the sale of our 37 percent interest in ACI for cash proceeds of approximately $369 million. This marks another significant milestone for AltaGas as the proceeds provide us greater flexibility in our ability to delever the Company.

Our self-funded 2020 capital program remains intact after a strong first quarter. We are well positioned to fund our estimated $900 million capital plan through internally generated cash flow and normal course borrowings, and we maintain strong liquidity with approximately $4.1 billion available to us at the end of the quarter.

Now diving into the segment that results in drivers, starting with our Utilities segment. Normalized EBITDA at our Utilities was $369 million for the quarter, approximately 10 percent higher than the same quarter last year. The largest driver of growth year over year was at Washington Gas, which was positively impacted by the Maryland and Virginia rate cases, higher revenues associated with ARP spending, lower operating expenses of $6 million that Randy mentioned earlier, and a stronger US dollar. These positive factors were partially offset by warmer weather in DC.

Recall, we have load decoupling in Maryland and Virginia, so the results in those jurisdictions were not impacted by the warmer weather.

SEMCO also contributed to higher normalized EBITDA, driven by new rate cases that came into effect at the start of this year partially offset by warmer weather in Michigan.

Shifting to our Midstream segment, normalized EBITDA was $120 million for the quarter. Factoring in the lost EBITDA of approximately $14 million associated with the 2019 sale of Stonewall and Central Penn, our core Midstream business grew at approximately 5 percent, with RIPET being the largest contributor.

Results in our base Midstream business remain strong, and we continue to see healthy volumes at our plants and new volumes from the Nig Creek facility.

Favourable butane spreads provided a strong uplift to our NGL marketing business along with higher AFUDC related to Mountain Valley pipeline.

These positive factors were partially offset by lower storage spreads and transportation margins from WGL Midstream assets and lower equity earnings from Petrogas.

In the first quarter, we exported 35,141 barrels per day to markets in Asia through RIPET, averaging two ships per month despite the impact of rail blockades, which impacted deliveries into RIPET in February.

RIPETs reported EBITDA was negatively impacted by a $6 million realized hedge loss on supply volumes that are exported in April. Excluding the timing impacts of the hedge loss, first quarter EBITDA would have been about $33 million, or approximately $10 per barrel. That said, the realized hedge loss will have a positive impact on second quarter margins through lower inventory costs.

As Randy mentioned earlier, we are achieving record railcar offloading and vessel loading rates and remain on track to hit our 50,000 barrel-per-day export target during 2020. We have secured the full 50,000 barrels of supply as at April 1st with approximately 33 percent now under long-term tolling agreements.

Turning to our capital program and funding plan, the work we did last year to reposition the Company to delever the balance sheet is paying off. We are well positioned to navigate through the coming quarters, investing primarily in our low-risk Utilities business using our self-funding model, while maintaining a strong balance sheet and investment-rate credit rating.

Our $900 million capital program for 2020 is largely invested in our Utilities with approximately 75 to 80 percent allocated to the segment. We expect to earn immediate returns on roughly 80 percent of our Utility capital through increased utilization of accelerated replacement programs and managing maintenance spending to align with depreciation.

The majority of Midstream capital was focused on the Townsend and North Pine expansions, which were recently put into service. Volumes from these projects will be ramping up over the next few months, and we expect to see earnings contributions in the second quarter.

As I mentioned, we maintained significant liquidity that further minimizes our funding and capital market risk well beyond 2020. At the end of the quarter, we had approximately $4.1 billion of liquidity available to us and $3.8 billion in available capacity on the credit facilities and $335 million of cash on hand.

We have debt maturities of approximately $980 million in 2020 and were able to refinance approximately $780 million in debt maturities year to date.

Maintaining an investment grade credit rating is fundamental to our strategy as it provides us with greater financial flexibility at times like this. We have been proactive in communicating with the rating agencies and have a constructive relationship with them. Our credit ratings remain unchanged.

On April 3rd, Fitch affirmed their BBB stable rating for AltaGas, and on April 27, S&P affirmed their A minus stable rating for WGL siting no material persistent impact from the COVID-19 pandemic.

Despite this challenging environment, our priorities have not changed, and we continue to focus on maintaining a strong balance sheet, funding organic growth, and returning capital to shareholders.

Our outlook for 2020 remains unchanged with anticipated normalized EBITDA in the range of $1.275 billion to $1.325 billion and normalized EPS of $1.20 to $1.30 per share, underpinned by increasing contributions from our core businesses and lower interest expense due to lower leverage and interest rates.

As a diversified, low-risk, high-growth utility and midstream company, we have positioned ourselves to deliver stable and reliable results through 2020. We expect the Utilities segment to contribute approximately 60 percent of 2020 estimated normalized EBITDA. Our rate-regulated utilities provide stability and growth through their steady and growing residential customer base, protected revenues, and limited sensitivity to weather.

Approximately 70 percent of our Utilities revenue comes from residential customers, and having effectively delivered safe and reliable service through our strongest demand quarter, we feel comfortable entering the spring and summer months, which typically represent only 20 percent of annual demand.

Approximately 70 percent of our Utility revenue is protected through fixed billing charges, decoupling, and other tracking mechanisms, which help minimize the impact of load variability associated with weather and other demand-related pressures such as COVID-19.

AltaGas currently has decoupling or demand trackers in Maryland and Virginia and has applied for them in the District of Columbia under the current rate case.

As Randy noted, we have been actively working with regulators, and D.C., Maryland, Alaska, Michigan, and Virginia have all issued orders that will allow us to track and recover any incremental COVID-19 costs, including bad debts, through the establishment of regulatory assets.

In Midstream our unique export strategy is underpinned by strong, long-term fundamentals. The demand for clean propane in Asia is growing. The long-term supply/demand imbalance supports the need for Canadian exports. And the Montney continues to have some of the lowest break-even prices in North America.

We have limited direct commodity price exposure in our Midstream business. About a third of RIPET's 2020 estimated volumes are contracted under long-term take-or-pay agreements with an average remaining term of about seven years. We have also hedged approximately 80 percent of RIPET's 2020 volumes at prices similar to 2019. Including contracted tolling arrangements, approximately 86 percent of RIPET's propane export volumes are hedged for 2020.

At our other Midstream facilities, we have hedges in place for approximately 93 percent of our 10,000 barrels per day of frac-exposed NGL volumes.

In summary, we are confident in our 2020 outlook with 60 percent of 2020 estimated normalized EBITDA coming from the Utilities segment and 80 percent from utilities and investment-grade counterparts. We also expect some tailwinds with the stronger average Canadian/US dollar exchange rate with approximately 70 percent of EBITDA being supported by low-risk regulated US assets.

Our strategy was designed to result in reliable, attractive, long-term earnings, and the work we have done to date provides us with financial flexibility. I believe that the combination of our strategy and strong financial stability provides us with the resilience to work through these unprecedented times.

With that, I will turn the call over to the Operator to facilitate the Q&A session. Operator.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now conduct the analyst question-and-answer session. If you'd like to ask a question, press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. There will be a brief pause while we compile the Q&A roster.

Your first question comes from Rob Hope from Scotiabank. Your line is open.

Rob Hope — Scotiabank

Morning, everyone.

Randy Crawford

Good morning, Rob.

Rob Hope

All right. Two questions. The first one's just on the visibility and the progress that you've made so far in reducing costs of WGL, which then will allow you to improve your ROE. The $6 million reduction in leak remediation costs that you saw in Q1, can you just give a sense of how you see the rest of the year playing out? And wouldn't the $6 million be a significant portion of the cost improvement that you're expecting in 2020?

Randy Crawford

Yeah, Rob. This is Randy. Look. I think we're making excellent progress in our operational excellence model, and we're just at the beginning. I think the investments that we're making in our accelerated pipeline replacement program is reducing expenses, and it's reducing leaks much more than historically. And there's clearly a correlation between this pipeline investment as shown in this quarter that reduced our operating costs.

So we remain on plan for our target this year. In fact, we're ahead of it. And again, as you pointed out, it's a combination of our operational excellence model as well as updated our rates in our jurisdictions that are going to get us to our allowed returns.

So a bit ahead of schedule, but we're consistent to the guidance in the plan that we put forward. And we'll continue to update as we move forward through the year.

Rob Hope

All right. That's helpful. And then just pivoting over to RIPET, just want to get a sense of how many ships you did in April, as well as you had 50,000 barrels a day supply available to you in April, but you do talk to a 50,000 barrel a day kind of exit rate in terms of RIPET. So it does imply that you could be hitting 50 sooner rather than later.

Randy Crawford

Yeah. I'll let Randy Toone comment here. But I will tell you we have experienced an increase in Canadian demand to access this unique capability, and we got a lot of strong interest from suppliers and, clearly, strong demand in Asia for the premium prices.

The limitation really is on the rail challenges, but the team is working every day to maximize and improve the logistics to reach the maximum capacity. I'll let Randy comment on the ships in April.

Randy Toone — Executive Vice President and President, Midstream, AltaGas Ltd.

Hey, Rob. It's Randy Toone. Yeah. We did two ships in April, which was consistent with plan, and our plan is to do three ships in May. As far as the 50,000 barrels go, we have contracted 50,000 barrels, but it doesn't show up all at once. So we roughly did about 45,000 barrels through April. And our target is still to do 50,000 barrels the rest of the year.

Rob Hope

All right. Thank you.

Operator

Your next question comes from Ben Pham from BMO. Your line is open.

Ben Pham — BMO

Okay. Thanks. Good morning. Also wanted to follow up on RIPET too and try and dig into this realized loss you booked, the $6 million. Are you basically bringing higher-cost inventories forward in the quarter and you've took off some hedges, you see a benefit in Q2. Is that what was going on there?

James Harbilas

Hey, Ben. It's James. Yeah. That's exactly right. I mean, obviously, we settle those hedges, and when you settle a financial derivative you basically have to realize a gain or loss associated with it. The physical delivery of that inventory, though, was in April. So the cost of that inventory that was sitting in the tank at RIPET was lower as a result of that hedge loss being realized in Q1. So the margins in Q2 should be better as a result of that lower inventory.

Ben Pham

Okay. And I would assume that's mostly on the non-tolling portion, which I would assume the tolling propane cost is a pass-through. Is that—

James Harbilas

That's exactly right.

Ben Pham

—that correct?

James Harbilas

Yes.

Ben Pham

Okay. And then this inventory I noticed, is this something that persists in the second half as well? Or it's to be determined?

James Harbilas

No. This is a timing issue just related, like I said, to the settlement of the financial contracts relative to the physical delivery. If the contract had been rolled, if the financial derivative had been rolled, then this would have matched into Q2 delivery. So it's—

Ben Pham

Okay.

James Harbilas

—a one-time timing issue.

Ben Pham

Okay. All right. Can you maybe switch over to the dividend and maybe talk about dividend sustainability? You talked about the strength and resiliency of your business. Maybe speak to the dividend payout ratio targets and how do you think about those payout ratios as you see it through COVID-19 impacts?

Randy Crawford

Yeah. Ben, I'll let James touch on that. But as you know, about a year and half ago, we had a substantial cut in our dividend, and from that point, we've been executing consistent to the plan in terms of looking forward in our business plan. And it's a key part of our business strategy. But I'll let James go ahead and talk about the specifics.

James Harbilas

Yeah, Ben. I think Randy touched on one of the most salient points. I mean, the tough decision to cut the dividend was taken in 2018. And it was cut to a level that we consider to be sustainable. If you look at the FFO growth that we've generated year over year and we're reaffirming our guidance with respect to EPS growth at the current level of $0.96, that's about a 70 to 75 percent payout ratio. So we consider it sustainable from an FFO standpoint, consider it sustainable from an EPS payout standpoint, and it is underpinned by continued strong growth in the cash flows of our utilities. The Utility EBITDA generation will continue to represent the majority of our business going forward, and we feel that that's a strong underpinning and support.

Ben Pham

All right. That's great. Maybe one last one to me. Any sort of timing update on the put option at Petrogas? Is there a hard date you have to respond back?

Randy Crawford

Yeah. Well, as I stated before, we're in the valuation process period, and I'm not really able to fully discuss our strategy. But I can tell you that taking control of interest in Petrogas will allow us to consolidate the EBITDA, provide monthly cash flows, sources our equity distributions. The put process is an interim process, and at this point I wouldn't want to speculate or provide details until there's more certainty really into the timeline. We're working through the process.

Ben Pham

Okay. That's great. Thanks, everybody.

Operator

Your next question comes from Linda Ezergailis from TD Securities. Your line is open.

Linda Ezergailis — TD Securities

Thank you. Just a follow-up to Ben's question on the Petrogas. What factors need to be in place for you to exercise your conversion of the press there to increase your ownership to 37 percent? And might that happen just before you take ownership? Or what are the puts and takes on that front?

Randy Crawford

Sure. James, I'll let you go ahead and take that.

James Harbilas

Yeah, Linda. We do have the ability and the right under our agreements to exercise our preferred shares and convert them into common. We haven't crystalized our thinking, but right now the most desirable approach for us is to most likely do that conversion before we close the deal.

Linda Ezergailis

Okay. Thank you. And what were the drivers for the $12 million year-over-year decline in Petrogas? Was it your crude oil marketing? Something else?

James Harbilas

Yeah. It was predominantly crude oil marketing side of the business and some realized hedge losses at Petrogas in Q1 relative to Q1 of 2019.

Linda Ezergailis

Okay. Thank you. And maybe just bigger picture, your discussions with the rating agencies look stable. Clearly, your business is very resilient. But I'm just wondering if you could give us a sense of if you're still on track to achieve 5.5 times debt to EBITDA by the end of 2020 and keep it. And how much further, based on your plans, might you be able to deleverage in 2021? And is that still an appropriate target? Or might there be some moving goal posts where you further shift that?

James Harbilas

Yeah. I mean if we look at our current outlook for the year that we're reaffirming here today, we feel that we can get to the 5.5 times target by the end of this year, just given the stability in the Utility business and, obviously, the fact that we've hedged a big portion of our Midstream cash flow. So we do feel comfortable that 5.5 times is possible.

Looking beyond 2020, obviously, we continue to have at our disposal noncore assets that we'd like to continue to monetize. And that's going to help us to further strengthen the balance sheet moving forward beyond 2020. So we still feel that those are achievable and, with a better macro backdrop, can move forward with some of those asset monitizations that we still have at our disposal on the power side.

Linda Ezergailis

That's helpful context. And I realize that you're busy with ensuring everyone's safe and your continued operations during the pandemic, but as you look beyond that, I'm just wondering, from a strategic perspective, if you can comment on what factors might need to be in place to consider potentially deepening your relationship with Idemitsu. In your joint venture in the past, there's been musings about further petrochemical investments. Clearly, there's a valuation disconnect between propane that you're leveraging through RIPET. And I'm just wondering if there might be any sort of possibility of further investments down the road. And what attributes would need to be in place for those to be compelling to AltaGas?

Randy Crawford

Well, Linda, from a strategic, they're an excellent partner, and we're very fortunate, with Idemitsu, to have them as an excellent partner. And right now, we're staying the course. We certainly we're looking always at being opportunistic. My view more macro on partnerships is that if you can get one that if one plus one equals three, then you've got some real value in what you're doing. So we'll continue to look at ways into the future to expand.

But right now, as you said, we've got our laser-focused on executing the plans that we've put in place, maximizing the utilization of RIPET, and ultimately integrating Petrogas. So your points are well taken. And we'll be optimistic, but at this point, we're pretty well-focused on the task at hand.

Linda Ezergailis

Okay. And just on—I'll jump in the queue in a moment. But just another kind of strategic updated thought from you on what sort of synergies do you still see between your Midstream and Utilities businesses? And at what point might there be more benefit in focused separate operations of those two platforms?

Randy Crawford

I think I've discussed this before, Linda, and overall, we have two excellent businesses. And we are leveraging new synergies around operational excellence, gas control. Utilities does an excellent job of managing its product each and every day and the logistics associated with moving our people and our product every day. And they're operationally excellent in what they do, similar to our Midstream business. And we're building a world-class Midstream business and leveraging a lot of those capabilities and infrastructures that go across both businesses. Combined, two businesses running under excellence around engineering and construction.

But as we continue to add scale and grow those businesses, we'll look at, into the future, whether it makes sense for those businesses that they're large enough to be separate. But at this point, that's way down the road, and we see value right now in these two businesses combined at AltaGas.

Linda Ezergailis

Great. Thank you. I'll jump back in the queue.

Operator

Your next question comes from Robert Catellier from CIBC. Your line is open.

Robert Catellier — CIBC

You've answered most of my questions, but I do want to go back to Petrogas for a minute. Given the extreme volatility in the energy market, it seems quite possible that this could be a divergence of opinions on valuation. So I'm wondering, in that context, what options do either of the parties have to defer a potential transaction?

Randy Crawford

Well, with respect to your latter point, our agreements are pretty clear as we go through a variety of different independent valuations and their stages. And then, as I said, I'm not going to get into the details of that. But I'm confident that it will be an accretive transaction for AltaGas. And obviously, extremely strategic in terms of our future around growing our export capabilities.

So the process will go forward. We will be operating it down the road. But there's significant amount of time and process that goes through with independent expert valuations. More to come.

Robert Catellier

Okay. Thank you. That's helpful. And maybe one question for Randy, Randy Toone. I'm just curious on the trends you're seeing on the customer behaviour and the gathering and processing business and what type of impacts that might have on deeper service volume.

Randy Toone

So yeah. Like Randy said, we have a capital-light program. So we've built out our processing capacity through 2017 through 2019 and a little bit in 2020. And that processing capacity is very valuable because of our integrated midstream offering. And so we do see volumes coming into our facilities. And we do have take-or-pays behind that. But there's no doubt that there is going to be a pullback, given what's going on in the commodity environment.

But long term, the Montney is one of the best resources in the world, and it will be developed. And we think we have great assets in the right spots of the Montney.

Robert Catellier

Okay. Thank you.

Operator

Your next question comes from Robert Kwan from RBC Capital Markets. Your line is open.

Robert Kwan — RBC Capital Markets

Great. Good morning. If I can just, high-level, just dig in a little bit to the outlook or the guidance that you've got. In the past quarter, you cited weather as well as WGL Midstreams being a drag, on COVID-19, you've got the regulatory protection and seasonality help. So I think the Utilities should probably be okay, unless you have other comments.

But a couple of other factors. Can you comment about the unregulated retail business and what customer demands on that might look like? As well as for Randy, you commented on the Midstream volumes. But it sounded a little bit more longer term. Can you just talk about real-time what you're seeing in volumes for versus say Q1? And if there's any expectation of volumes falling off for the remainder of the year?

Randy Crawford

Yeah. Well, I'll take your first point on the retail business. It's a very small part of our overall businesses around our utility. And we obviously stress test all of those related to volume. So from the gas side of the business, we've just come out of our largest order, and we have seasonal businesses there. So less volumes in the second and third quarter, a little bit of power exposure. But overall, we expect those to be down, but not a material impact overall to our guidance going forward.

Your second question was with respect to the volume of growth behind our systems I believe. Is that right?

Robert Kwan

Yeah.

Randy Toone

Randy, you want me to go?

Randy Crawford

Yeah. Go ahead.

Randy Toone

Yeah. So, as we disclosed, we just started up our Townsend expansion. So we've added the deep-cut capability to Townsend. And those volumes are going to ramp up over the next few months. Our customers are, they've had drilled those wells. There's volume behind pipe, and they plan on bringing those wells on. They do see the value of the gas price right now.

Some of our customers have shut in their oil wells that have very little associated gas behind them. So we do still feel confident that even near-term, the volumes will be there.

We have seen some shut-ins around our Harmattan gas plant, but it's non-material to the overall Midstream business. And like I say, long term, we think the Montney is going to be developed.

Randy Crawford

Yeah. And I would just add we fully believe that the export is the future for North America for propane, for butane, and we're well positioned for that. And that area of our business just continues to grow, and we've experienced increasing demand for that unique capability.

And while our integrative approach will continue to grow, as Randy had said, it may moderate. But we're in an excellent position as we've been, as we don't have to put in a lot of money into these businesses. And we feel that the growth in RIPET, which is generating significant cash, and we feel good about the Asian demand and the margins in this business.

So that structural advantage and the access to global markets is where we're going to continue to grow. And we've got a lot of interest from large aggregators. So again, not everything will come through our facilities, but we'll continue to see demand coming from across the basin.

Robert Kwan

Just maybe if I can just summarize. If I think about where you were standing in December when you set the guidance, weather in the first quarter was a headwind, which also, both the Utility and WGL Midstream and then a little bit on the unregulated retail. It doesn't sound like there's a lot happening on Midstream volumes. And then the tailwind being taller. Are there any other kind of changes that you didn't envisioned in December pushing the numbers within guidance?

Randy Crawford

Well, James can cover the FX is obviously a tailwind as well right now.

James Harbilas

Yeah. The FX, I mean that is a material factor. I mean if you look at the sensitivities in our MD&A, a $0.05 change is about a $35 million upside from an EBITDA standpoint. So the tailwinds there are significant, Robert.

But I want to go back to your comments on the retail side of the business. That is an extremely small piece of the overall business. So even if we had a—and I'm throwing this out there as an example. Even if we had a 20 percent pullback in demand there, I don't think that really moves the needle. It represents about 3 percent of our consolidated EBITDA.

Robert Kwan

Yeah. That makes sense. Turning to debt leverage, you've got the 5.5 times target. I'm just wondering what are you seeing right now on incremental bad debt expense and any temporary payment deferrals. So even though you've got the regulatory asset treatment, I'm just wondering is it material enough to impact your ability to hit that target.

James Harbilas

Yeah. It's a good question. So we have not seen, at this point, any material spike or slowdown in collections. I mean you saw, obviously, in Q1, we had a working capital unwind. That's continued into the entire month of April. So we haven't seen anything material there.

If we go back to the global financial crisis back in '08, '09, I think time frame, they saw about a $10 million spike in bad debts. So I don't think that that puts pressure on it. I think from a coverage ratio standpoint, the regulatory asset accounts are going to provide some assistance for us and not take any of that P&L hit on those ratios.

But obviously, working capital would have to obviously grow a little bit, and we'll have to take on a little more leverage. But that's all been discussed with the rating agencies when we reached out and were proactive, and we continue to feel comfortable with the most salient metrics that they track, especially S&P, and that's our FFO to debt metric.

Randy Crawford

Yeah. I think—

Robert Kwan

And I guess—sorry. Go ahead.

Randy Crawford

Well, I just wanted to add, Randy, that as I mentioned, we're entering the lower usage months of the Utility. Like we have six months to weather the storm before there's really any impact. So I think we're in an excellent position when this gets under control and we get back to some sense of normal for the fourth quarter.

Robert Kwan

That makes sense. And just last, still on the leverage, what do you think is an appropriate level for your company longer term, just given the 5.5 times metric? And that's kind of your calculation. I think it's closer to six on the rating agencies with the prefs. But you don't see a lot of utilities up at that level. And certainly, we don't see midstream companies up in that level. So where would you like to be longer term?

James Harbilas

Well, we've said consistently, and both Randy and I have said it since joining that we like to be under five times. I mean if you exclude the prefs, that's probably somewhere a little higher than—if you include the prefs, that's somewhere a little higher than five. But if you look at some of the Canadian utilities, they've got leverage that it's in the high fives from a debt to EBITDA standpoint.

But I'll go back to what we said last year, and we continue to manage towards it. We've got enough in the way of noncore assets still available to us to monetize as things get better and we get a better macro backdrop that'll allow us to get under five times debt to EBITDA in a medium to long-term basis.

Robert Kwan

That's great.

Randy Crawford

And I agree. We've been clear about that. And we want to be down below that. We will be. The environment's a bit clearly with asset sales. But we're not desperate to sell. And in the long run, we have some excellent remaining noncore assets and that we'll work in the long term throughout this year to continue to monetize those and be able to meet those metrics going forward.

Robert Kwan

Great. Thanks very much.

Operator

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

Julien Dumoulin-Smith — Bank of America

Hey. Good morning, team. Thank you so much. So perhaps following up on the last thread of questions on the utilities, can you elaborate a little bit? I mean, obviously, you continue to articulate these cost savings targets. And obviously, you're entering in the low season of utilization with respect to gas and utilities. But that being said, are you still on track? Do you see any—when you think about the sales impacts in aggregate through the cumulative course of the year, do you see any pressure relative to your ability or your plan to achieve your earned ROEs you already articulated? I just want to make sure that you feel good A) against the sales and B), to the extent which is necessary to raise those cost targets to offset, mitigate those concerns.

Randy Crawford

Yeah, Julien. Look. Confident we're going to hit those targets. I'm going to let Blue Jenkins give you a bit more detail because he and the management team that is in place is doing an excellent job and is on track. So, Blue, I'll let you comment on Julien's question.

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

Yeah. Thanks, Randy. Julien, good question. Now, as you recall and you can see it in the presentation, so the ROE process will continue, improvement on the return will continue this year and into 2021. So we don't see anything both near term as a result of COVID or anything else that would impact that process. As you saw in Q1, we're able to drive our costs down a bit better than budget. We have a plan to continue to do that through the course of the year.

So I think the actions we're taking, I think, given the revenue conversation that we've had earlier in terms of the rate cases and some of the protections that exist, I think we will get there by the end of '21. And it still feels pretty good from where we sit today.

Julien Dumoulin-Smith

Excellent and welcome. If I can ask a quick follow-up here. Going back to the Midstream side of the business, and you talked about that confidence, reaffirmation this year around RIPET more broadly. Can you talk about the actions you're taking now to de-risk the business prospectively beyond the current year to firm up the outlook? And then especially with just looking at RIPET more specifically, your confidence level on sustaining cash flows and, more importantly, probably scaling the volume still, given the backdrop?

Randy Crawford

Yep. Julien, the simple answer is I feel pretty good about it because we are consistently being approached by large aggregators who want access to our unique capabilities. So from a volume perspective and from a tolling perspective on our targets and de-risking of these assets, I feel very good about that and that we're in a strong position to continue to meet those objectives.

It's a very unique capability when you're in a point, as I said in my prepared remarks, when there's reductions in North American demand, access to global markets are absolutely essential. And we're seeing strong demand on the supply side and strong demand on the Asian markets. So that gives me a great deal of confidence.

Julien Dumoulin-Smith

Got it. And your commentary is multiyear there, right?

Randy Crawford

I'm sorry, Julien?

Julien Dumoulin-Smith

Your commentary applies beyond 2021 onwards, right, on scaling?

Randy Crawford

Yes. It does. My comment is related to 2020 and beyond.

Julien Dumoulin-Smith

Okay. I'll leave it there. Thank you, guys.

Operator

Your next question comes from Patrick Kenny from National Bank Financial. Your line is open.

Patrick Kenny — National Bank Financial

Hey, guys. Thanks for all the updates this morning. Yeah. Just thinking with the Midstream business here, I guess outside of lower fee-for-service volumes, curious if you've had or expect to have any further discussions with your non-investment-grade customers with respect to restructuring any of the take-or-pay commitments across the portfolio or perhaps any other form of support for your customers' netbacks just until commodity prices recover? Or do you believe that the recent government support that was announced through the EDC loans will be enough to see them through to the other side of this?

Randy Crawford

Yeah. I think it's certainly a challenging time for many. But our decision to create the ability to export propane in Asia through RIPET and that unique value proposition is really helping our customers. And that's a role that we're playing that benefits the creating of new demand for Canadian producers, helping them get better netbacks, and help them position better to recover from the storm that they're encountering.

So no, we'll continue to work with them. We don't see any material restrictions, but we're talking to all of our customers. But as I said, we continue to expand our supply mix and customers and increasing with larger and diversified high-quality aggregators, so.

Patrick Kenny

Okay. Just switching gears, you guys touched on Blythe. Just to clarify as it relates to pursuing a potential sale of that asset at some point, now that the new tolling agreement was approved in the quarter, or is that process simply just not feasible in this environment?

Randy Crawford

I wouldn't say it's not feasible. We've got processes, and we're looking toward that. But as I've mentioned, we're not going to sell assets for less than their value. And we are in a strong position. We don't have to do that. So you can imagine this environment that transactions around asset sales are a bit challenged. But that's the short run. I think in the medium to long term, we'll be able to execute and get fair value going forward.

Patrick Kenny

Okay. Fair enough. And then last one here, maybe for James. You touched on the credit ratings. Just wanted to confirm that your corporate IG rating and stable outlook has been recently reaffirmed by the rating agencies. Or was that just for WGL?

And also, you mentioned the funding that's been executed year to date. Also wanted to confirm that. Do you see the need to be in the debt markets over the remainder of 2020? I believe there's a small $200 million note that's due in June. Or is the plan to wait until the economy reopens?

James Harbilas

Yeah. No. That's good. So just the first part of your question, Pat, on the rating agencies. Fitch came out and affirmed the rating of AltaGas and the entire group of companies that they rate. So that was inclusive of the utilities and WGL holdings as well. S&P put out a specific report on WGL and had no issues with ALA, so they left the rating where it is for ALA, so BBB minus stable outlook. And in our conversations with DBRS, they didn't take any rating actions either. So they left the ratings as they were when they all came out in December as part of our annual review.

On the refinancing and the $980 million in maturity, $780 million of that was at the WGL holdings and SEMCO level. And those deals were closed at the end of April. The $200 million maturity that we have coming up at ALA, we have enough capacity on the line to be able to repay that on maturity. And if we see credit spreads tighten and we see a window in the market, then we will access it at favourable pricing.

We have seen people access the markets and especially utilities and infrastructure companies with stable cash flows, and we feel that we've got those characteristics. So we're just going to monitor things and decide when the right time is to do that refinancing longer term.

Patrick Kenny

Got it. Okay. Thanks again, guys.

Randy Crawford

Thank you.

Operator

Your next question comes from Andrew Kuske from Credit Suisse. Your line is open.

Andrew Kuske — Credit Suisse

Thanks. Good morning. Obviously, it was a volatile quarter. But could you maybe give us some context on just how your risk management systems performed amidst the volatility? And then any tweaks you made to your systems in light of what happened?

Randy Crawford

Sure. James, I'll let you go ahead.

James Harbilas

Randy, you want me to take that? Yeah. Look, I mean, just before I talk about some of the specific risk management practices, I just want to take the chance to reiterate that when you look at our trailing 12-month revenue where it's 70 to 75 percent investment grade at the Midstream business, right? And if you layer in the utilities, we're well north of 80 percent.

But in terms of risk management practices and things we do short term with some of the counterparties that we have that are below investment grade, I mean we've always been marketing NGLs and gas for some of these entities. And as a result, we settle our tolls first. And if there's any AR balances remaining at a month-end or quarter-end, we typically have letters of credit that backstop those exposures to our customers.

And obviously, from a medium- to longer-term standpoint, we still feel confident that the assets that we have are positioned in a very prolific basin. And as a result of that, it's a desirable basin when consolidation happens and some of the stronger producers look to consolidate those positions, we feel that we're well positioned for those volumes to flow to our plants.

So we've always been very active on the risk management front, and those are some of the examples of things that we do through this period.

Andrew Kuske

And then any substantial changes to the policies? Or really steady as she goes and everything held up really well with the volatility that we saw?

James Harbilas

Well, I think we've always had appropriate policies to deal with a credit risk assessment of our customers. So I mean if your question is have we become more aggressive on LCs, I think we've always been aggressive when it comes to dealing with sub-investment-grade counterparties based on market demands for them to post LCs. I mean even on cargos that we ship to Asia, if they're sub-investment grade then we demand LCs to backstop those exposures to us.

Randy Crawford

Yeah. We have a very robust process from the mid to front office and back up. We have a risk committee and policies. And I mean this is a low-risk, higher-growth utility and midstream company. So it's a key part of how we manage this business every day. So this is just a testament to when you stress the system, as it would for many companies, how well we've held up and the quality of our risk management tools.

Andrew Kuske

Yeah. I guess that's the gist of it is you had a Six Sigma event and everything held up really well.

Randy Crawford

You got it. Exactly. Thank you for that question.

Andrew Kuske

Okay. That's great. Thank you.

Operator

Your last question comes from Elias Foscolos from Industrial Alliance Securities. Your line is open.

Elias Foscolos — Industrial Alliance

Good morning. Just one quick question, probably directed to one or two of the Randys. I believe, Randy, in your opening remark, you said 120,000 barrels a day of combined propane and butane export capability off the West Coast. And I guess I recall RIPET having a maximum capacity of 80 and the Ferndale facility of 30. So is there some optimization that you can see?

Randy Crawford

Yeah. No, look, the optimization really is around the logistics, right, and the rail and the optimization these facilities can do, the capability, but the limiting factor is really the logistics around getting the number of ships out and being able to get the supply there.

So what I was referencing was underlying capability and the amount of ships that could be there. But the key driver is going to be around the rail and the logistics to get the product to maximize. And as I said, the team is working on that each and every day to work toward the logistics of maximizing supply and export volumes.

Randy, I don’t know if you want to add any—

Randy Toone

Yeah, Randy. It’s Randy Toone. And RIPET is capable of 80,000 barrels a day, and Ferndale is actually capable of 40,000 barrels a day, not 30. So that’s where we get the 120.

Elias Foscolos

Okay then. Thanks for that clarification.

Randy Toone

Yes.

Elias Foscolos

That’s it.

Operator

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

Adam McKnight

Thanks, Julianne, and thank you, everyone, once again for joining our call this morning and for your interest in AltaGas. Just as a reminder, the Investor Relations team will be available after the call if you’ve got any follow-up questions.

And that concludes our call this morning. I hope you enjoy the rest of your day. And you may now disconnect your phone lines.