Q2 2017 ALTAGAS LTD. EARNINGS CALL

CORPORATE PARTICIPANTS

David Harris *AltaGas Ltd. – President & CEO*

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

Randy Toone *AltaGas Ltd. – EVP of Commercial & Business Development*

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

CONFERENCE CALL PARTICIPANTS

Ben Pham *BMO Capital Markets – Analyst*

David Galison *Canaccord Genuity Corp. – Analyst*

David Noseworthy *Macquarie Capital Markets – Analyst*

Patrick Kenny *National Bank Financial – Analyst*

Robert Catellier *CIBC World Markets – Analyst*

Robert Kwan *RBC Capital Markets – Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the AltaGas Q2 2017 Conference Call. As a reminder, this conference call is being recorded.

I would now like to turn the call over to Jess Nieukerk, Senior Director, Investor Relations. Please go ahead.

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

Thank you. Good morning, everyone. Welcome to AltaGas' Second Quarter 2017 Conference Call. Speaking today are David Harris, President and Chief Executive Officer and Tim Watson, Executive Vice President and Chief Financial Officer. After some formal comments this morning, we will have a question-and-answer session.

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

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

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

Thank you, Jess. Good morning, everyone. The second quarter of 2017 was another very strong quarter for AltaGas. We achieved record normalized EBITDA in the quarter of $166 million, an increase of approximately 8% over the second quarter of 2016. Normalized funds from operations were also up 8% at $123 million compared to $114 million in the second quarter of 2016. Year-to-date normalized EBITDA in each of our businesses segments has increased compared to the first half of 2016, with gas up 50%, power up 7%, utilities up 10%.

All three of our base businesses are performing extremely well and our consistently strong operations are delivering better than expected results. As such, we now expect to deliver low double-digit percentage growth in normalized EBITDA for the year compared to 2016. We also continue to expect high single-digit percentage growth in normalized funds from operations.

In the second quarter, we gained strong momentum on a number of our key strategic initiatives. At our Gordondale Facility, we have been able to work together with Birchcliff to incent increased utilization through to late 2020. The agreement we reached applies to volumes above the take-or-pay levels prescribed in our existing agreement.

We also continue to have positive discussions with other producers in the area and continue to look at ways to expand the gas gathering system. We are seeing positive signs to maximize the potential of the Gordondale Facility, as well as the overall site, which has the potential to support additional processing capacity and reach up to 500 Mmcf per day.

As part of our energy export strategy, we were pleased to announce our joint venture with Royal Vopak with respect to the Ridley Island Propane Expert Terminal. Royal Vopak is a strategic global partner with extensive experience in terminals around the world. They also have access to additional land on Ridley Island. Royal Vopak has a 30% ownership interest in the entity owning RIPET, with AltaGas providing all construction and operating services for RIPET. We hope to build on our good relationship and leverage Vopak's global expertise and asset base, combined with AltaGas' solid operational expertise.

On the construction side, we have significantly advanced all three of our major gas projects -- Townsend 2a, North Pine and RIPET. At Townsend 2a, we will be moving into commissioning in the second half of August and the facility is on track to be online in October.

Our North Pine Facility continues to track faster than expected. We anticipate having the first train of North Pine up and running as early as December. Both projects continue to track on budget.

At RIPET, construction is moving at a very swift pace. The storage tank is approximately 35% complete and all major equipment has been ordered. The great work being done here keeps us on track for a Q1 2019 on-stream date.

First Nations and the B.C. government are firmly behind our projects and their support has allowed us to advance these projects ahead of schedule. We're excited about the remainder of the year. As we work toward the completion of our major construction projects and we build on the momentum of our solid results to date, we maintain a strong focus on our potential growth opportunities, including a further buildout of our Northeast B.C. strategy on the gas side, new energy storage opportunities in power, and the Marquette Connector Pipeline at SEMCO. This is in addition to the regular investments in rate-based growth we see with our existing utilities.

I would note that as we continue to build momentum in 2017, the board has decided that a determination on the dividend will be made in the Fourth Quarter.

Turning to the pending WGL acquisition, we are making progress on the regulatory matters. Timelines are becoming more defined as we move forward. We are starting to see approvals coming in with respect to the FERC approval, as well as deemed approval under the Hart-Scott-Rodino Act. We anticipate having further positive milestones over the remainder of 2017 and into 2018.

We continue to anticipate receiving final decisions from all regulators in time to close the acquisition in the first half of 2018. We are also progressing our asset sales plan and are starting the first phase of our asset disposition process, which include large-scale gas-fired power generation assets in California, together with non-core assets.

As we look forward to AltaGas' future, we are excited about the opportunities in front of us. Our vision of being a leading diversified North American infrastructure company has not changed. Our strategy of having a balanced portfolio between gas, power and utilities will continue to play out.

Our commitment to generating value for our shareholders has not changed. Those key ingredients that have driven the success of AltaGas over the past 24 years continue to drive AltaGas forward to an exciting future.

While AltaGas remains true to its values, the size and scale of each of our business segments and the opportunities that this increased scale creates will grow. On conclusion of a successful transaction with WGL, we will have additional top quality assets and a significant footprint both in Canada and the U.S. across all three of our business segments.

Together with WGL, we'll have secured growth of approximately $5 billion, approximately $2 billion of which is being invested in the gas segment. Furthermore, we have a strong line of sight to an additional $2 billion in growth opportunities through 2021.

Overall, the growth and opportunities we have as a combined entity provides solid support for visible dividend growth of 8% to 10% through 2021 while maintaining a conservative payout ratio of 50% to 60%. With our enhanced footprint, we expect there will be numerous additional growth opportunities over time above and beyond what we have identified to date.

We are also excited about the global relationships we have building with strong partners such as Idemitsu, Astomos and Royal Vopak. We believe these relationships will generate significant opportunities for all partners in the future, allowing AltaGas to build on its unique and differentiating ability to offer global market access to its customers.

In summary, we are very pleased with our Second Quarter results and expect that our diversified asset base will deliver strong results for our shareholders in 2017. We have very positive momentum going forward with strong near-term catalysts from our major projects that are set to come online soon, in addition to near-term development opportunities which we expect to capitalize on in the future.

However, we are most excited about the opportunities that the future holds. We look to continue to provide sustainable long-term value to our shareholders from our diversified low-risk portfolio of energy infrastructure assets.

I will now pass the call over to Tim.

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

Thank you, David. Good morning, everyone. Our second quarter results continue to highlight the strength of our diversified business mix with all 3 business segments contributing to significant year-over-year growth. In total, normalized EBITDA for the second quarter of 2017 was up 8% to $166 million compared to $153 million in the second quarter of 2016.

Our base business and new investments have performed well this year and that is evident by the strong growth in the first half of 2017 versus last year. EBITDA up 19% in the first half, funds from operation up 18%, net income up 38%, and earnings per share up 19% versus first half of 2016.

To quickly review Q2 2017 performance for each of the 3 business segments, starting with gas midstream, normalized EBITDA was $41 million, up over 10% versus the second quarter of 2016. Gas midstream accounted for approximately 25% of total normalized Q2 EBITDA. On the gathering and processing side, total volumes were up 55% due to the addition of the new Townsend Processing Facility, stronger volumes at both Gordondale and other facilities, partially offset by lower volumes at Blair Creek.

In addition, gas volumes processed at the extraction facilities were up 10% and this was despite the plant turnaround at EEEP and third-party outages upstream at Younger. As a result, higher frac exposed volumes contributed positively in the quarter. Note that the plant turnarounds at EEEP and the Turin Facility were completed in Q2, resulting in increased expenses of approximately $3.5 million.

Turning to power, Normalized EBITDA was $77 million, up slightly as compared with the second quarter last year. This represents approximately 46% of total normalized EBITDA. Contributions from the new Pomona Energy Storage Facility as well as the timing of the Blythe outage contributed positively.

Renewable volumes were down due to decreased volumes at Northwest Hydro as 2016 had an earlier start to seasonally high river flow. I would also note that volumes at the San Joaquin Facilities were higher due to increased run time, though they earn fixed capacity payments so the impact on EBITDA was minimal.

Finally, normalized EBITDA at our regulated gas distribution utilities increased 20% to $55 million in the second quarter of 2017. Colder weather versus last year in Alberta and Alaska contributed positively but was partially offset by warmer weather in Michigan and Nova Scotia. There was also positive impacts from the interim and refundable rate increase at ENSTAR, good overall cost control resulting in lower expenses, insurance proceeds received by SEMCO's nonregulated operations, and early termination payments from one of SEMCO's nonregulated customers, moving from a fixed to a volumetric-based contract, higher customer usage at AUI in Alberta, and favorable transport revenue primarily at P&G. All these were offset partially by lower interruptible storage service revenue at CINGSA.

A stronger U.S. dollar also had a positive impact on both the power and utility segments in the quarter. Lower equity income was earned from Petrogas in the quarter due to weaker netbacks on the export shipments from Ferndale, particularly in April and May, partially offset by the strengthening of Petrogas' business lines supporting the upstream sector and by the dividend income received from the Petrogas preferred shares.

Normalized funds from operation or FFO were $123 million in the quarter, up 8% from $114 million in Q2 2016. Stronger results in all business segments were partially offset by lower distributions from Petrogas. We received $4 million in common and preferred share dividends from Petrogas this quarter versus $6 million in common share dividends for the same period of 2016, which was in line with our expectations. Petrogas continued to retain cash in Q2 2017 to fund its growth capital program and for general corporate purposes. On a per-share basis, normalized FFO was $0.72, down $0.04 from last year due primarily to lower equity distributions and higher cash taxes.

Depreciation and amortization was $71 million in the second quarter compared to $66 million in the second quarter of last year. This increase was due to new assets placed into service. In the second quarter of 2017, income tax expense under GAAP bookings was $8 million, up from $4 million in the same quarter of 2016. This increase is mainly due to unrealized losses on certain risk management contracts not being tax deductible.

Total normalized net income for the second quarter was $28 million or $0.17 per share, comparable with $29 million or $0.19 per share last year. Net income reflects higher preferred share dividends in Q2 2017 versus last year. Normalizing adjustments for the quarter can be found in the MD&A disclosure and include transaction and bridge financing costs related to the WGL acquisition of $9 million, unrealized losses on risk management contracts of $22 million and certain other items.

On a U.S. GAAP basis, net loss applicable to common shares for the second quarter of 2017 was $8 million or $0.05 per share. This compares to $16 million or $0.10 per share for the second quarter of 2016.

In addition to the WGL costs, unrealized losses on risk management contracts and higher preferred share dividends referenced earlier, there was also an unrealized pre-tax loss of $8 million recognized upon ceasing to account for the Tidewater investment using the equity method.

Invested capital for second quarter was $122 million, down from $282 million in the second quarter of 2016, which included the Petrogas Preferred Share Investment. Over 2/3 of total investment this quarter was directed into the gas midstream business segment.

Second quarter maintenance capital was $2 million in the gas segment and $3 million from the power segment.

AltaGas' balance sheet is in a strong position and well-funded for 2017. At the end of the quarter, debt to total capital was 42%, down from 46% at the end of 2016. This remains well below our bank and term loan covenant levels of 65% to 70%. As a reminder, there is approximately $1.6 billion available on our existing bank credit facilities and cash or cash equivalent balances at the end of the quarter were $156 million. So far in 2017 we have completed the successful $300 million preferred share offering which was very well received by the market.

Turning to our 2017 outlook, based on strong performance year to date in an assessment of the remainder of the year, we now expect to deliver low double-digit percentage growth in normalized EBITDA. Normalized funds from operation are expected to grow by a high single digit percentage. Each of the three business segments will contribute to this growth led by the gas midstream segment.

Quickly on each of the segments, EBITDA from gas midstream is expected to be driven by the first full year of operations at Phase 1 of Townsend, higher frac exposed volumes and commodity prices, higher NGL marketing revenue, improved natural gas storage margins, higher expected volumes at the Gordondale Facility following the signing of the modified take-or-pay agreement with Birchcliff, and a partial year of contribution from Townsend 2a entering commercial operations early in the fourth quarter of this year.

In addition, we expect to benefit from a full year of income from the preferred share investment of Petrogas. These additional earnings will be offset by the sale of the EDS and JFP transmission pipelines, which closed in March of this year and will impact EBITDA by approximately $10 million in 2017.

Based on current forecast of commodity prices, the amount of gas midstream extraction volumes exposed to frac spreads is expected to increase to an average of 9,500 barrels per day for 2017 compared to 6,600 barrels per day last year. We have hedges in place this year for approximately 5,500 barrels per day at an average price of around $23 per barrel, excluding basis differentials. As a reminder, every plus or minus $1 per barrel change in frac spread results in a change of about $1.5 million to total 2017 EBITDA.

Approximately 63% of 2017 gas EBITDA is underpinned by take-or-pay or cost-of-service contracts which have no direct price or volume exposure associated with them.

2017 full year growth in the power segment will be driven by higher expected earnings from the Northwest Hydro Facilities due to contractual price increases and continued improvements in productivity resulting in higher volumes generated and lower operating costs.

Other positive developments in power are expected to include contributions from a full year of operations at the Pomona Facility, fewer planned outages expected at Blythe and at the Craven Biomass Facility, as well as higher earnings from the Bear Mountain Wind Facility due to stronger wind generation.

Finally, utilities are expected to see a moderate increase in normalized EBITDA for 2017 compared to 2016. This increase is mainly driven by colder weather in the first half of 2017 at some of our utilities, along with normal weather assumed for the remainder of 2017. This compares to the warmer weather experienced at all of our utilities in 2016.

In addition, higher customer usage and lower expenses are expected to benefit earnings, partially offset by lower interruptible storage service revenue at the CINGSA Facility.

Turning to 2017 capital expenditures, we expect to spend $600 million to $650 million this year. The gas segment will account for approximately 65% to 75% of that total, while utilities will account for approximately 20% to 25% and power about 5% to 10%. Gas and power maintenance capital is expected to be approximately $25 million to $35 million. The majority of 2017 capital will be allocated towards AltaGas' growth projects related to the Northeast British Columbia and energy export strategies, including the Ridley Island Propane Export Terminal, Townsend 2a, the first train of the North Pine Facility and the North Pine Pipelines.

The 2017 capital program is expected to be funded through internally generated cash flow, dividend reinvestment plan and boring under existing facilities. AltaGas maintains strong market access.

We expect approximately $300 million for depreciation, amortization and accretion expense this year.

The 2017 corporate effective tax rate based on normalized earnings is expected to be approximately 25%. Approximately 50% of the total expected 2017 EBITDA from AltaGas will come from the U.S. This again reflects the diversified business platform across all 3 major energy infrastructure business lines. As a quick reminder, for every plus or minus $0.05 change in the Canada U.S. foreign exchange rate, the impact to EBITDA for the last two quarters of 2017 is about $7 million.

Even if FX rates stayed at current levels which are at a 2-year high for the Canadian dollar versus the U.S. dollar, for the balance of the year EBITDA growth this year would remain solidly double-digit percentage-wise, if you understand that – just -- double-digit percentage growth will be intact.

So in summary, we just completed another record year at AltaGas. Our guidance has increased and we now expect to deliver low double-digit percentage growth in normalized EBITDA and high single-digit percentage growth in funds from operation over 2016, with a number of key investments setting a stage for further growth in 2018 and beyond.

Quickly on WGL, we will look to align the long-term transaction financing expected through the second half of 2017 and into 2018 with the final steps in the WGL acquisition process. More specifically, we will plan to undertake senior debt, hybrid securities as well as selected asset sales. The opportunities mentioned are actionable and support our long-term strategy, involving a balanced mix of energy infrastructure, assets across all three of the gas, power, and utility business segments.

Much of the proceeds realized will be in U.S. dollars and will be utilized to ultimately repay the U.S. $3 billion of standing bridge facility, which itself remains available for 12 to 18 months following the close of the WGL acquisition.

As we move through the third quarter and into the fourth quarter of this year, we anticipate being able to provide updates on the asset sale process as it further develops. As Dave mentioned, the WGL acquisition will provide us with greater financial strength and flexibility with a visible line of sight to grow the dividend by 8% to 10% annually through 2021 while lowering the payout ratio. This is consistent with our intention to remain a low-risk value proposition for our shareholders while maintaining a strong investment-grade balance sheet. WGL provides increase scale in each of our diversified business segments and it will allow us to pursue and accelerate growth opportunities in all three.

To conclude, as you've heard, the balance of 2017 holds a number of exciting catalysts for AltaGas, both with operational and development milestones inside of our base business, along with advancing asset sales and the overall WGL transaction.

With that, I'll turn the call back to Jess.

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

Thank you, Tim. Operator, we will now open up the call to the investment community for questions and answers.

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of David Noseworthy with Macquarie

David Noseworthy – Macquarie Capital Markets – *Analyst*

Thank you very much and congratulations on a solid quarter. So perhaps I could just start with your asset sales. Can you provide any color regarding the incoming interest you received on the California assets or other assets that you may be considering divesting? Just in terms of buyers' preference for operating versus non-operating -- Canada, U.S. -- that sort of thing.

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

It's not really based off of any interest we directly receive. This is just in keeping with what our plan has been. We're now just looking to move into phase one of the asset sale process. We expect to see probably a diversified set of interest because of the assets and where they're located.

David Noseworthy – Macquarie Capital Markets – *Analyst*

Okay, and then is there -- then just in terms of timing, you did mention that you think you'll be able to give more detail on the process as you go forward but in terms of timelines, process, data rooms, number of rounds, that sort of thing, can you provide any color on that side of the equation?

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

Sure. We'd expect to be on the street with the RFPs towards the end of August, with data rooms opening up in parallel with that, and looking to probably have a first round of bids in around the end of September timeframe and then take it from there into the next round or so.

David Noseworthy– Macquarie Capital Markets – *Analyst*

Perfect. Thank you. And then just with regards to the modified agreement, your modified take-or-pay agreement with Birchcliff, do the modifications provide AltaGas with any additional flexibility in regards to bringing third-party volumes into Gordondale?

Randy W. Toone – AltaGas Ltd. – *EVP of Commercial & Business Development*

Yes, it's Randy Toone. The modification is just for interruptible volumes over their firm service. So we'll be able to bring in any third party for firm service above that.

David Noseworthy– Macquarie Capital Markets – *Analyst*

Okay, and is there any sort of favored nations clause or revenue sharing that exists for those volumes at Gordondale?

Randy W. Toone – AltaGas Ltd. – *EVP of Commercial & Business Development*

No.

David Noseworthy – Macquarie Capital Markets – *Analyst*

Okay, perfect. And then just lastly, Randy, maybe just on the turnaround, what's the length of time on that turnaround? And the capitalized cost -- is that maintenance or is there an expectation of return given your agreement with Birchcliff?

Randy W. Toone – AltaGas Ltd. – *EVP of Commercial & Business Development*

The turnaround is coinciding with a TransCanada outage, so it's about 14 days and the capitalization is just an accounting treatment that we have. And so, there's no extra charge to Birchcliff on that.

Operator

Our next question comes from David Galison with Canaccord Genuity.

David Galison – Canaccord Genuity Corp. – *Analyst*

Just to touch back on Gordondale. So based on your initial discussions you're having there, what type of expansion potential do you think you could get out of the facility?

Randy W. Toone – AltaGas Ltd. – *EVP of Commercial & Business Development*

So where Gordondale is located, it's located in the Montney Fairway where liquid-rich gas is and so the sour deep-cut capability is very attractive to producers. So we are looking at potentially filling the extra capacity, and like David said, we have enough room to go at 500 million cubic feet a day. The first expansion would probably match the existing train, which is 135 million a day.

David Galison – Canaccord Genuity Corp. – *Analyst*

Okay. And then just in the utilities segment, could you give us an idea of how much the early termination and insurance payments were in the quarter?

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

Sorry David, can you just repeat the question?

David Galison – Canaccord Genuity Corp. – *Analyst*

In the utilities segment, there was -- included in the results was an early termination and an insurance payment. Is that correct?

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

That's correct, it's relatively minor amounts. Obviously, single-digit, low end of that range but it's something that we just wanted to note from a disclosure standpoint. Not the biggest single driver, clearly, utilities business.

Operator

Our next question is from Ben Pham with BMO Capital Markets.

Ben Pham – BMO Capital Markets – *Analyst*

I'm curious on the natural gas asset sale to the launch there and I'm just wondering just how do you think you can manage the timing of that potential close of that transaction with WGL and the uncertainties that that bring and how you kind of bridge that gap there between the two.

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

If I understand your question correctly, we don't think it's that difficult to manage this process. Out of the gate with respect to the assets we're talking about, there are two large gas-fired generation assets in California. It's a relatively straightforward package that we'd be hitting the street with and as it relates turning around and getting to an acceptable close by the end of the year, we don't really see that being a problem or having any challenges with respect to WGL.

Ben Pham – BMO Capital Markets – *Analyst*

So if you sell -- let's say you're successful there and you get the proceeds and for some reason or another WGL doesn't close, and I'm not saying it does. You guys would just pretty much -- you guys would have just sold gas anyways and you'd redeploy the proceeds to buying back stock or other investments?

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

We would just, if the WGL transaction didn't close, we'd just redeploy those proceeds on stuff that would add the most value to the shareholder.

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

And I think it's important to realize, as Dave said, we would launch a process early fall, so coming up relatively quickly here but processes take time, and they'll lead to a logical conclusion later, relatively late in the year. And you match things accordingly, right? And so, probably a couple rounds, as Dave alluded to in terms of a standard sale-side process and you come to -- if you see what you like, you come to an agreed-upon transaction by the end of the year and you might or might not close that at the end of the year. It might be into early next year. But as that's happening, obviously we're going to continue to make progress on the WGL transaction. And we've always said that the asset sales will align relatively closely with demonstrated progress on the WGL transaction. We think we're off to a great start on the WGL process itself -- more to come there -- and that gives confidence to get the asset sales underway, realizing that there's no commitments yet because the sale process takes time to unfold.

Ben Pham – BMO Capital Markets – *Analyst*

Okay, and it looks like the -- on WGL, just sticking out, it looks like you're tracking to your expectations and moving through the process, and I'm just curious what your thoughts on just looking at some M&A deals you've seen recently, maybe a little bit less shareholder friendly, the outcome of that. And then this -- curious your thoughts on does that impact your thinking in terms of how you position your financing plan and how you think about the WGL process going forward?

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

Can you clarify some -- I was taking notes, but what -- you said recent M&A deals being less shareholder friendly or something. I just want to make sure I understand where you're coming from on that.

Ben Pham – BMO Capital Markets – *Analyst*

Yeah, I guess more specifically, there's been some deals like Great Plains-Westar where there's been some changes in how the structure, financing structures are financed and ultimately, accretion expectations have been lowered, and the fact that that may be less friendly regulatory environments and more perhaps just some noise that's occur in there. But I just wonder if that's changed your thinking on the process and how you think about financing.

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

No, not really at all, I mean, really, we've always said that WGL is a very strategic fit for us and that's been substantiated as we've gotten into this more and more. So as I said before, we feel like we're off to a great start just with the overall process itself and we're moving deeper and deeper into it. You've heard about some of the milestones already accomplished on things like FERC, Hart-Scott and more to come. So I think things are progressing exactly as we would have thought. Frankly, we did the equity up front and that's contingent -- that's tied to the transaction. So we're well positioned there, obviously. And the other things, the other financing steps will proceed as the transaction progresses. We won't get ahead of anything on this; we'll just take it as the transaction progresses.

Operator

Our next question is from Robert Catellier with CIBC Capital Markets.

Robert Catellier – CIBC World Markets – *Analyst*

I was wondering if you can just provide some of the rationale in selecting the California gas-fired assets as the first sales candidate to fund WGL.

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

As we looked at the assets, being on the U.S. side and California contracted, should have a fair amount of interest in something we believe puts a nice package together on something that we can move relatively quick on. But as Tim had stated, in concert obviously with as we believe how we're pacing and pacing positively at this point with respect to the WGL program.

Robert Catellier – CIBC World Markets – *Analyst*

So specifically on the contracted nature of these assets, Blythe is contracted but it's relatively short tenure. So it just seems like you would have benefited by maybe making more progress on the re-contracting. But at the same time, that's a longer-term project, so that just -- could you walk through just the logic on that a little bit more?

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

Yeah. You take Blythe, there's about 2.5 years left on the contract and Tracy's got about five years left on the contract but as we said in the past too, that usually how it works with contracted assets, with regulated utilities is your counterparties, they have resourcing and plan programs that we believe these assets stand strong, will be re-contracted. But usually don't need to get into that dialogue with those counterparties until you get much closer to the end of your contract term. So at the end of the day, sometimes timing with respect to that is not optimum but we do feel these assets sitting in a good location will have good contracting re-ability to them, good flexibility to them. We've added some additional capabilities at Blythe with low turndown capability. We've tied in a second source of gassing there that provides a lower-cost fuel option with respect to feeding fuel into that facility. So there's a lot of good things that have been added on to Blythe to turn around and boost its incremental value. So I'm not overly worried about the fact of the facilities not being able to play at the appropriate time when time's right to be re-contracted.

Robert Catellier – CIBC World Markets – *Analyst*

Just as you look forward just with your financing plan, what seemed to me, even with a successful transaction here, you would need other assets to be sold. So what do you see as the most actionable type of asset remaining in the portfolio that would be an appropriate sale candidate?

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

Okay, you're talking about after we --

Robert Catellier – CIBC World Markets – *Analyst*

After the power, yeah.

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

As we talked about, we've got non-core assets. These would be excess assets that we would look to turn around and unlock value on as we go down that path and we'll see what we get to as we get through here this first phase and then we'll see what else we'd possibly take a look at.

Robert Catellier – CIBC World Markets – *Analyst*

So just to clarify, do you think you can reach your sales goal with the California gas-fired assets plus non-core asset sales, or could we expect another core-type asset to be sold?

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

Yeah, I mean, I think we've said a couple times now probably in the past two conference calls that there's several areas within our existing asset portfolio that will be candidates. These would be selected assets. We talked about power and these are larger scale power assets so they are meaningful. Dave just referred to other additional non-core, that there would be selected small, smaller gas-type assets potentially there. And third, I've said on previous calls that we've seen unsolicited interest in assets, like utilities, and there's clearly just generally market interest in that type of asset class. And so, that's nothing that we -- we're going to focus on the California power for the balance of this year, plus non-core. But that's phase one, or step one I suppose. And as we get into 2018, there will be a second step there. We need to define it further. But nothing's changed in terms of our expectations for total sale proceeds, which, in conjunction with, as I said, some hybrid securities and some inaugural U.S. dollar term debt, changes anything from a funding standpoint.

Robert Catellier – CIBC World Markets – *Analyst*

So really, nothing has changed. It's just this is phase one, you'll see how it goes, and then make some other decisions, right?

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

That's correct. And again, it's just important to realize that you do things one step at a time. We think this is a meaningful package. We're going to work it in the marketplace. We think there will be good interest, we'll have support in marketing that, and will progress the overall transaction.

Robert Catellier – CIBC World Markets – *Analyst*

And that leads me finally to the dividend question and I respect the prudence in the board deferring that decision to the fourth quarter, at which time I think you'd have more visibility into the asset sale program. Maybe you could just give us some insight as to what management is advising the board and what the board deems as drivers -- the most important drivers for that dividend consideration, dividend increase consideration in the fourth quarter, in light of the unusual factors that are occurring at the company, being the WGL acquisition-related funding.

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

I think the first and foremost thing is simply how are we performing and how is our base business doing looking front center at the cash flow generation. And you can see that we're off to a very strong start for the first half of the year. We've also upped the guidance for the year in total. So this is going to be an outstanding year from an AltaGas standpoint. Clearly, the growth and the cash flow generation will support a strong dividend here going forward and that's also going to insure that we have a consistent payout ratio in the payout ratio range, percentage range that you've seen over the past several years. Won't be any divergence there but that'll be supported by enhanced cash flow generation.

So that is the major priority here. The WGL transaction is obviously a focus for the management team for the balance of the year. We do want to make continued progress on there. But the dividend isn't per se tied to the WGL transaction; it's tied to ultimately how our finances and our base business is doing. And frankly, historically, we've always done the second half of the year, generally, in terms of when the board makes its decision. Some years it's Q3, some years it's Q4 and so there's a lot of year still to happen here.

Robert Catellier – CIBC World Markets – *Analyst*

Okay, so it sounds like there was a transactional specific goal that has to be achieved to raise the dividend, it's just that the sum total of the operating performance which you described and then we'll just have better insight on where you stand at that time.

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

That's right.

Operator

Our next question is from Robert Kwan with RBC Capital Markets.

Robert Kwan – RBC World Markets – *Analyst*

Maybe I'll just continue on the dividend question. In kind of hearing your answer, Tim, is it fair then really that the consideration as you guys are off to a great start, things are looking good for the second half, and it's just more of how much the board wants to increase the dividend?

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

That's really exactly it. We've got a very good year going and not only just from a standpoint of results to date, but as we see the balance of the year unfolding, as we indicated with our low double-digit growth on EBITDA or high single-digit growth on funds from operation and the fact that we're pacing exceptionally well right now on our construction projects, especially the two that are scheduled to come online this year -- one being obviously Townsend 2a, scheduled to be COD in October, and North Pine initially thinking it was going to be into Q1 of next year, that's pacing really well and is looking like it'll be online here in December. So I think the board just wants to be a little patient, not premature, as Tim suggested. We've gone out in previous years at the end of the year and before we turn around and determine what the increase is, get through the next couple months and turn around and put a finer point on it for the street.

Robert Kwan – RBC World Markets – *Analyst*

Okay, so it is a magnitude, not an “if” question.

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

Correct.

Robert Kwan – RBC World Markets – *Analyst*

Just on the power sale and mostly just how it relates to how you communicated the accretion on the WGL side, I just wanted to confirm that the accretion on WGL is net of your expectations on the asset sales. So now that you've kind of solidified -- not that you weren't directionally talking about it before, but solidified as to California power assets, presumably those will probably be lower multiple assets than what you're buying, so a bit of a drag on the accretion, but that what you've communicated is net of all of the anticipated asset sales?

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

Yeah, that's correct. We gave you a full look-through because obviously we appreciate there are different moving pieces here, different parts. But the funding, the asset sales are an integral part of how we look at the first full year with WGL and so all of that would have been fully considered.

Robert Kwan – RBC World Markets – *Analyst*

Perfect. If I can just clean up on following up on the utility question and the nonrecurring drivers of the quarter. So you had $2 million from the contract termination. Is it fair that because the insurance was listed first, it is directionally higher than the two?

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

No, they're basically in the same level or so. So, yeah, there's no delta there.

Operator

Our next question is from Patrick Kenny with National Bank Financial.

Patrick Kenny – National Bank Financial – *Analyst*

Just on TransCanada here going ahead with de-bottlenecking the southern portion of NGTL, increasing gas lines down GTN over time here, can we get your thoughts on what this might mean for Harmattan, where volumes are today versus capacity and I guess, if you would ever consider expanding your co-stream capabilities?

Randy W. Toone – AltaGas Ltd. – *EVP of Commercial & Business Development*

Raw gas volumes around Harmattan have come off a little bit over the last couple of years, just because of lack of drilling but we've seen that come back in 2017 and we're looking at potentially increasing the raw gas side of Harmattan. Just where the ethane market is right now, we just don't see an expansion of co-stream in the cards right now.

Patrick Kenny – National Bank Financial – *Analyst*

And then I don't think you guys have had your daily FX question here, so just with the Canadian dollar now at $1.25 or so, how strong does the loonie have to get before your FFO accretion guidance off WGL is out of reach? Or maybe a better question is -- how do you think about protecting your plan to raise the dividend 8% to 10% through 2021, just given the inherent exposure on FX to WGL's FFO?

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

Well, yeah, I think on the first part of the question, I think the Canadian dollar would have to continue to strengthen to biblical proportions, probably. And I would say -- what I said in my prepared comments were really if it stayed at the current level, so $1.24, $1.25…that would have no meaningful or material impact on the double-digit guidance that we have provided -- this is for EBITDA, of course, you're talking about. So it would have to go materially higher than that. I mean, our guidance, we can't forecast FX rates any better than you but I think we've taken a fairly prudent view of where the FX rate can be for the second half of the year, given recent changes on monetary policy. So we'll watch it carefully. I think the broader question is just how we manage FX going forward. Now, as you know historically, last year and for this year, AltaGas standalone, half our cash flow is in U.S. dollars, so this isn't a new phenomenon for us by any stretch. We do have a number of natural, what I call breaks in the system, including U.S.-dollar debts, U.S.-dollar preferreds, things like that which are sort of -- well, maybe not breaks -- but cushions I guess that smooth the FX impact to some degree. We'll look at it more as we go forward here and close WGL because with the WGL transaction in hand, our cash flow from U.S. will be more than 50%, probably a little less than three-quarters though and that'll be a consideration as we go forward. And also, I guess my last comment, it would just be the only real, I would say, FX exposure that we've taken active steps to manage here, which again I think is pretty prudent, is just on the Canadian dollar proceeds that we received on the subscription receipts that are now sitting in escrow. So we're well hedged on that front and protected there. So I think that's probably what I can say right now on your question.

Operator

And I'm showing no further questions. I would now like to turn the call back over to Jess Nieukerk for any further remarks.

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

Thank you, Operator. Thank you everyone, for joining us this morning. Should you have any follow-up calls or questions, Ashley and myself are available.

Operator

Thank you. Ladies and gentlemen, thank you for participating in today's conference. You may all disconnect. Everyone have a good day.