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AltaGas Ltd.

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PRESENTATION

Operator

Welcome to AltaGas Fourth Quarter 2020 Financial Results Conference Call.

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

Adam McKnight — Director, Investor Relations, AltaGas Ltd.

Thanks, Megan, and good morning, everyone. Thank you for joining us today for AltaGas' fourth quarter and full year 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 of our Midstream business, Blue Jenkins, Executive Vice President and President of our Utilities business, and Jon Morrison, Senior Vice President, Investor Relations and Corporate Development.

In addition to the fourth quarter press release, financial statements and MD&A that were released earlier today, we've also published a Q4 earnings summary presentation that we may refer to at select points during our prepared remarks. The presentation, which walks through the quarter and highlights some of the key variances and one-time items that we would assume would be helpful for the market, is available on our website under Events and Presentations.

As always, today's prepared remarks will be followed by a question-and-answer period, and I'll remind everyone that we will be available after the call for any follow-up or detailed modelling questions. We'll proceed on the basis that everyone has taken the opportunity to review the press release and our fourth quarter results.

Before we begin, we 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 our investor presentation, which can be found on our website and more fully within our public disclosure filings on both SEDAR and EDGAR.

For the structure of the call, we'll start with Randy Crawford providing some comments on our 2020 financial performance, the Petrogas integration and what you can expect on the road ahead for AltaGas, followed by James Harbilas providing a more detailed walk-through of the financial results and our near-term outlook. Then we'll leave plenty of time at the end for the Q&A session.

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

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

Good morning, everyone. The past year was one like we have not seen and included great disruption across every part of the globe. Despite these challenges, AltaGas persevered and delivered robust financial and operational results that yielded positive outcomes for all our stakeholders.

We delivered 14 percent earnings per share growth while building AltaGas' organizational capacity and advancing our corporate strategy. We executed one of the largest capital programs in our history with more than $900 million of organic CAPEX deployed. We also invested another $715 million to advance our global export strategy through taking operational responsibility of Petrogas and now controlling both operational LPG export terminals on the North American West Coast.

Through it all, we positioned AltaGas to excel in an evolving ecosystem, the energy transition that is upon us. We have built a culture that is geared to deliver outstanding results for our stakeholders. It's focused on performance, it's fuelled by accountability, and it's underpinned by collaboration and pushing the envelope. For two years running, we have delivered normalized EPS growth that has materially eclipsed all of our U.S. gas utility and Canadian midstream peers. Our stock performance was also at the top of our peer group for the second year running.

Amid this performance, we have continued to improve our balance sheet and our credit position. We have derisked the platform in numerous ways, and we have built a more sustainable business. The past year was also an environment that provided us validation of the resiliency of the platform, our people and the purposeful actions we have taken over the past two years to create an enduring business that is focused on creating long-term value for all of our stakeholders. We also take great pride in being able to play a part in lending a helping hand to the communities where we serve during this time of need.

There are four key areas I wanted to touch on today before turning the call over to James. This includes our 2020 financial performance, Petrogas integration, our role in evolving energy market, and what you can expect on the road ahead for AltaGas.

In terms of 2020 performance, our Utilities business demonstrated the strong and resilient performance that we worked hard to achieve, delivering 21 percent year-over-year normalized EPS growth. This provides us with high confidence that we will capture the full value of our industry-leading 8 percent rate base CAGR through 2025.

We continue to realize the benefits of our acute capital discipline, judicious management of our cost, reduction of incoming leaks, which were down more than 15 percent year-over-year in our regulatory cases that are designed to deliver better customer outcomes and keep our rates in line with our current operating and planned cost structure.

We successfully closed the ROE gap by approximately 150 basis points in 2020, in line with our target. This keeps us on track to close the remaining 150 bps gap and achieve our allowed return over 2021. The D.C. and Maryland rate cases we filed in 2020 are expected to have an impact at the start of the second quarter of 2021. In December 2020, we reached a settlement agreement with the D.C. Public Service Commission that included a revenue increase of USD 19.5 million. DC currently has the largest gap between our earned and allowed returns and this rate case is the first since 2016. It will go a long way towards closing the ROE gap at WGL. The updated D.C. rates have been approved to become effective April 1.

Within our Midstream business, we made significant progress in advancing our global export strategy, including a full year of operations at RIPET and acquiring Petrogas and the Ferndale export terminal. We also completed the North Pine and Townsend 2B expansions, which significantly increased our processing and fractionation capacity within the Montney region.

AltaGas' core throughput volumes in the region increased by 16 percent year-over-year in Q4 2020, as customers continue to grow into contractual agreements at Townsend and North Pine. Recent upstream consolidation has provided a significantly improved counterparty credit risk. Upstream consolidation transactions build scale, create financially stronger companies, which support the longer-term growth plans in the region and align with our thesis to build an industry-leading footprint in Northeast B.C.

In 2020, we made significant progress on our operational and logistics capabilities at RIPET. After a rocky start to the fourth quarter due to logistics difficulties, we achieved our 50,000 barrels a day exit rate target by exporting approximately 50,600 barrels a day in December 2020 and January 2021. In 2020, we exported 27 VLGCs, which contained approximately 1.2 million metric tons or 15 million barrels of Western Canadian propane to Asia, providing tangible benefits to the Canadian upstream and midstream industries.

We took advantage of the strengthening in the forward FEI curve for propane in Asia by locking in hedges at healthy spreads late in Q4 and early Q1. Currently, we have just approximately 70 percent of RIPET's expected exports hedged for 2021, which includes 35 percent underpinned by tolling agreements and the balance coming from financial hedges at approximately $10.25 a barrel FEI to Mont Belvieu throughout the year. From a timing standpoint, we're approximately 90 percent hedged in the first quarter and 65 percent hedged for the remainder of the year.

In terms of Petrogas integration, although we are in the early days, Petrogas employees have already been a great cultural fit within AltaGas, and we are seeing benefits of their deep midstream and energy export knowledge and experience. We have been busy embracing the best practices of the combined organization and have learned a great deal from each other in terms of driving operational excellence across our logistics and maritime shipping practices.

We remain highly confident of being able to realize the $30 million in run rate cost savings and logistics optimization opportunities that we originally identified for 2021. Petrogas Calgary employees will move into AltaGas offices in the coming weeks, and we are taking purposeful steps for accelerated integration and ensuring that the best ideas and practices rise within the larger organization.

The addition of Ferndale effectively doubled our LPG export capacity to approximately 100,000 barrels a day, with the ability to expand to an excess of 130,000 barrels a day in the coming years with minimal capital investment. Petrogas assets also provide us with greater access to NGL supply and storage in Fort Saskatchewan, which further advances our energy export value proposition and supports further volume growth.

The integration of the commercial and operational knowledge and experience of Petrogas employees along with the AltaGas people and the platform will yield large dividends to our stakeholders. We exited 2020 and began 2021 on a very strong footing, shipping five cargoes in December, four cargoes in January, and we are on track to ship five cargoes in February.

As we continue to move towards a more decarbonized ecosystem, we believe natural gas will play a critical part as the transition fuel of the future. Our Utilities distribution network is comprised of critical infrastructure that enables us to deliver low carbon natural gas today and provides a foundation for delivery of carbon-free solutions in the years ahead, including renewable natural gas and hydrogen.

It is for this reason that we place a strong emphasis on our accelerated pipeline replacement program spending within WGL, as it replaces aging infrastructure and reduces methane emissions through leak remediation.

It, first and foremost, improves the safety and reliability, delivery of cleaner and affordable energy that is critical to keep society moving forward while preserving optionality for delivery of carbon-free fuels in the future. We have a demonstrated track record of delivering on this initiative through other parts of AltaGas, including our SEMCO operations in Michigan, where we have reduced emissions by 50 percent since 2010, and we continue to advance these environmental stewardship initiatives across the AltaGas platform.

In addition, our ability to deliver lower carbon emitting fuels to Asia through our Midstream platform creates potential for us to help lower global carbon emissions. Our combined LPG export capacity at RIPET and Ferndale has the potential to reduce the equivalent of 500,000 average Asian citizens' total carbon footprint per year when compared to using more carbon-intensive fuels like thermal coal.

We are also undergoing engineering work on various emission reduction opportunities across our Midstream network, with a focus on steadily reducing AltaGas emissions intensity over time. AltaGas has a long history of operating with social purpose and delivering strong environmental stewardship. You can expect that same from us in the years ahead.

Looking ahead, we are steadfast in our goal to reduce leverage to below 5x net debt-to-EBITDA over the medium term, as our credit ratings and derisking plans remain a top priority. We will continue to execute our strategy and take advantage of our distinctive Utilities and Midstream businesses that are well positioned to deliver strong and highly visible growth.

In the year ahead, we remain acutely focused on: one, optimizing returns through previously deployed capital, as there is simply no greater way to create value for our stakeholders than improving the returns on the capital that's already been deployed; two, growing our Midstream segment through the investments we have made in Northeast B.C. and our global export platform, where we have deployed more than $2 billion of capital in the past four years; and three, making disciplined investments in our Utilities platform and provide steady returns and having a positive environmental impact.

It is with this approach that we are building a diversified, low-risk, high-growth Utilities and Midstream business that is delivering resilient and durable value for our stakeholders that should compound in the years ahead.

With that, I will turn the call over to James.

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

Thank you, Randy, and good morning, everyone. Despite the immense challenges that were brought by COVID-19 and the economic and societal disruptions that came as a result, we're pleased that our diversified platform delivered another solid quarter to conclude a successful year.

Twenty-twenty normalized EBITDA of $1.31 billion landed in the upper end of the guidance range that we set at the start of the year, while 2020 normalized EPS of $1.42 billion, eclipsed the top end of our guidance range. These results continue to highlight the strong underlying resilience of the platform and the purposeful actions that we've taken over the past two years to refocus the Company.

As we have said in the past, we are acutely focused on creating durable value for our stakeholders and providing steady and compounding returns over time. Our Utilities business, which represents approximately 60 percent of EBITDA, continues to provide stable and reliable earnings and experienced only moderate challenges in 2020 associated with usage, bad debt expense and other factors underpinned by COVID-19.

Our Midstream business, where approximately 65 percent of EBITDA is underpinned by take-or-pay or fee-for-service arrangements, has less direct commodity exposure and continues to provide stable and predictable results. We also continue to take steps to derisk the platform in areas where we do have commodity price exposure, and that can be seen through the active hedging program we undertook in recent months in relation to both our merchant exposure at RIPET and the frac exposed output in 2021.

Despite the challenging environment, we achieved normalized EPS of $0.53 in the fourth quarter and $1.42 for the full year, with the latter representing a 14 percent year-over-year increase and was well above our 2020 guidance range of $1.20 to $1.30 per share.

Normalized EBITDA for the quarter was $392 million and $1.31 billion for the full year, landing in the upper half of our guidance range of $1.275 billion to $1.325 billion.

Similar to last quarter, I want to highlight a couple of large one-time items in 2019 that were not present in 2020 and are important in understanding our business performance. This includes $117 million of lost EBITDA from asset sales and a $21 million tailwind associated with the contract settlement in Q4 2019 at Petrogas, which was not repeated this quarter. Excluding these items, our full year adjusted run rate EBITDA was up approximately 12 percent year-over-year within our core business.

These one-time impacts and major year-over-year variances are laid out in our Q4 '20 earnings presentation, which is available on our website and intended to provide additional colour to better understand our operating performance in an open and transparent manner.

The year-over-year growth within our core businesses was underpinned by strong execution within the Utilities segment and resilient performance within the Midstream segment, despite a very challenging commodity price environment. Our full year normalized 2020 Utilities EBITDA was up 13 percent year-over-year, which was driven by the same capital, regulatory and cost discipline that has been our focus over the past two years.

Specific to the fourth quarter, our Utilities segment reported normalized EBITDA of $259 million compared to $260 million in Q4 2019. If we adjust for lost contribution due to asset sales and the one-time impact of Virginia Hearing Examiners' report on Q4 2019, the Utilities segment run rate EBITDA increased by 4 percent.

WGL's normalized EBITDA was $170 million in the fourth quarter, down $12 million year-over-year. Excluding the one-time $5 million impact associated with the Virginia Hearing Examiners' report, WGL results were down approximately $7 million year-over-year. Factors impacting results included higher revenue from ongoing ARP spending that was more than offset by unseasonably warm weather within D.C. and COVID-19-associated costs.

We made significant progress towards earning our allowed returns at WGL through our ongoing capital, regulatory and cost discipline. We had a stated goal of closing the ROE gap at WGL by 150 basis points in 2020, and we met that target. We have another 150 basis points targeted in 2021 to be in a position of fully earning our allowed return in 2022 and beyond.

In Michigan, SEMCO had another strong quarter, contributing $41 million to normalized EBITDA, up $6 million year-over-year. The increase is a result of higher rates associated with 2019 rate case that came into effect in January 2020 and higher transport and gas services revenue, which was partially offset by warmer weather.

In Alaska, ENSTAR and CINGSA benefited from colder weather and contributed $25 million of normalized EBITDA for the quarter, up $3 million over the same quarter last year as a result of usage and customer growth.

Finally, normalized EBITDA from the Retail Energy Marketing business was up $7 million year-over-year to $23 million in the fourth quarter on higher gas margins due to favourable commodity prices, higher volumes and lower operating costs, which were somewhat offset by COVID-19 impacts related to electric margins and usage.

Moving over to the Midstream segment. We continue to see stability in the core business, absent some of the earlier headwinds that we experienced due to third-party logistical issues around RIPET. Q4 normalized EBITDA of $128 million compared to $179 million in the same quarter of 2019. Excluding the previously mentioned one-time items in Q4 2019 consisting of a $21 million tailwind from Petrogas contract settlement and lost EBITDA from asset sales, Midstream fourth quarter normalized EBITDA declined modestly year-over-year.

The largest contributing factors were a result of lower hedging gains in the Company's U.S. storage business, lower realized margins at RIPET due to higher tolling volumes and lower margins on merchant exports and higher logistical costs due to disruptions along the supply chain that were present in the early part of the quarter. These factors were partially offset by two weeks of Petrogas consolidation and strong volume growth at our North-Eastern B.C. facilities.

RIPET and Petrogas contributed $38 million of normalized EBITDA in Q4 2020, including Petrogas realizing equity earnings for the more than 80 percent of the quarter and AltaGas only consolidating its earnings following the close of the acquisition on December 15. As noted earlier, RIPET's volumes in the first six weeks of the quarter were impacted by third-party logistical issues that carried over from the previously disclosed Q3 challenges. Positively, these issues were resolved in mid-November, and strong execution in the back half of the quarter, we achieved our 50,000 barrels per day exit rate target.

As we have highlighted in the past, continuing to derisk the Midstream platform remains a top priority for AltaGas in 2021 through increasing export tolling arrangements at RIPET and Ferndale. We continue to see strong demand in Asia as economies have opened back up, heating demand has been robust and petrochemical feedstock demand has increased with new facilities coming on stream to meet the growing demand for plastics globally, including robust demand for PP&E.

We took advantage of this strengthening in the forward FEI curve for propane in Asia by locking in hedges at healthy spreads in late Q4 and early Q1. Currently, we have 70 percent of RIPET's expected exports hedged for '21, which includes 35 percent underpinned by tolling agreements and the balance coming from financial hedges at approximately $10.25 a barrel FEI to Mont Belvieu throughout the year. This includes us being approximately 90 percent hedged in the first quarter at Ferndale.

At Ferndale, we have tolling agreements in place with local refiners for a portion of the capacity, which is weighted to spring and summer months. As we continue to integrate the assets and optimize logistics between the two terminals, we expect to take a similar approach to derisking at Ferndale as we have taken at RIPET over the long term. This includes increasing our tolling arrangements and hedging a greater amount of merchant volumes going forward.

Our North-Eastern B.C. footprint continued to deliver steady increases as customers continue to grow into contractual agreements at the recently expanded Townsend and North Pine facilities. Excluding the one-time impact of maintenance work at Younger, our North-Eastern B.C. throughput volumes were up 16 percent in Q4. We had approximately 10,000 barrels of frac-exposed output in the quarter that was hedged and realized at an average frac spread of $13.95 a barrel.

Interest expense was down $9 million year-over-year to $68 million in the fourth quarter due to lower average interest rates compared to 2019, as 2020 maturities were refinanced at lower rates and aligned with our ongoing focus to continue to stagger, extend and derisk AltaGas' capital structure.

Our capital focus in 2021 remains heavily weighted towards organic growth within our low-risk utilities platform that will deliver stable and transparent rate base growth through accelerated replacement programs and system betterment that ensures a timely recovery of capital and strong risk-adjusted returns. Approximately 80 percent of our $910 million growth capital program will be directed towards our rate-regulated utilities where approximately 46 percent will be directed to accelerated pipeline replacement programs.

We continue to prioritize maximizing returns on previously deployed capital, and we are maintaining a capital-light program within our Midstream business in 2021. This follows more than $2 billion of capital we have deployed in the past four years in North-Eastern B.C. and within our global exports' platform, including the $715 million we deployed on Petrogas in December.

We are maintaining a disciplined approach to capital allocation within a self-funding model that will continue to strengthen our balance sheet and increase financial flexibility over the medium to longer term. We are steadfast in our goal to reduce our debt-to-EBITDA ratio to below 5x in the medium term by prudently growing into our current debt levels and realizing the tailwinds of our strong rate base growth within our Utilities segment and increasing utilization and volume growth within our Midstream and energy export facilities.

We will also look to take advantage of any incremental deleveraging opportunities where possible, including potential noncore asset sales that accelerate our deleveraging strategy. We are reiterating our original 2021 guidance that was released in December, where we expect to achieve annual consolidated normalized EBITDA of $1.4 billion to $1.5 billion and normalized earnings per share of $1.45 billion to $1.55 billion.

With that, I would now like to open the call to Q&A.

Q & A

Operator

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

Patrick Kenny — Analyst, National Bank Financial

Good morning, guys. Just given the volatility in the Far East Index spread this winter, does that help or hinder your ability to lock in new tolling agreements with customers? Perhaps you could just remind us what your target contracting level is by, say, year-end as a percentage of exports?

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

Hey, Patrick. Thank you for the question. Clearly, with the acquisition of Petrogas, the ability to load more ships, and we have far more tools in our toolbox surrounding logistics and supply optimization and the balancing because of storage. In 2021, we're coming out of the COVID into where commodity prices have recovered. We've seen some consolidation in the upstream sector, creating stronger entities, more capability of making long-term commitments such as tolling.

While FEI demand and prices remain strong and continue, we're optimistic about derisking that platform. We're exploring alternative structures that would derisk it and provide more incentives on tolling. Our target is to—over the past year, we've gotten to 35 percent at RIPET tolling, and our target is to exit the year-end at 50 percent.

Patrick Kenny — Analyst, National Bank Financial

The spike in the spread this winter, did that result in an increased level of inbound from potential customers?

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

Sure. I mean, really, we've said over time, Patrick, that this is the best market for the LPGs that we provide for our customers. Sure, there's lots of interest. My point is that things are working in terms of the consolidation in the upstream sector that make our producers stronger and put them even in a better position to make longer term commitments such as tolling.

Patrick Kenny — Analyst, National Bank Financial

Got it. Got it. Okay. Now with both hands on the steering wheel at Petrogas, Randy, what are you seeing in terms of other opportunities outside of Ferndale? I know there's a decent storage footprint at Fort Saskatchewan, some other terminals scattered around North America. Just curious if you see some hidden value outside of the core propane export business and what you could potentially realize over the next couple of years?

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

No, it's a great question. I'll let Randy answer some of that in a bit more detail. But as a broader kind of perspective, right, our LPG storage assets in Fort Saskatchewan as well as our larger domestic presence that Petrogas brings in the Gulf Coast as well is really something that we think we can leverage in terms of our future growth around our customers. Randy, go ahead, and I'll let you talk about some of those specific opportunities.

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

Sure. With Petrogas, they do have more of a marketing presence for NGL, so both North American and exports for both propane and butane. We feel that we can provide our customers more of a better netback on those products, and that will add value to our processing business and hopefully lead to future growth in those businesses as well.

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

Patrick, I'll just chime in. When you think about our market optimization, supply chain efficiencies and really the strategic positioning around long-term contracting and access to the refineries and expansion of logistics or improved logistics, all are playing a role to dramatically increase the amount of product that we can do domestically as well as to Asia in our export strategy.

Patrick Kenny — Analyst, National Bank Financial

Okay. Great. Last one from me, maybe for James. Sorry if I missed it. But just given your exposure to the U.S. dollar and the recent move here towards $0.80, can you just update us on your FX hedging policy and, I guess, at least until the balance sheet is below 5x?

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

Yes. Patrick, we don't hedge our translational exposures with respect to the balance sheet. We do have a sensitivity in our financials where a $0.05 move would impact EBITDA by about $35 million. But when you go to debt ratios, because we have some U.S. dollar-denominated debt, we would get a benefit in both the denominator and the numerator. It doesn't really move the needle in a negative way or a positive way in terms of those ratios. But, our FX hedging does not deal with translational hedges. It does focus more on transactional hedges where we want to lock in margin on certain U.S. dollar-denominated revenues.

Patrick Kenny — Analyst, National Bank Financial

Okay, thanks a lot. I'll leave it there guys.

Operator

Your next question is from Rob Hope with Scotiabank.

Robert Hope — Analyst, Scotiabank

Morning everyone. A follow-up on Patrick's question. As you take a look at 2021 guidance, the environment, at least on the NGL side, has significantly improved, but we've seen kind of FX headwinds. As you look at kind of the tailwinds and headwinds that you're seeing so far, were you able to capture strong marketing margins in Q1, which hopefully offsets the strengthening FX? I just want to get a sense of how you're thinking about 2021 guidance.

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

Yes. Good morning Rob. Thanks for the question. I guess the answer is yes. As you know, with the acquisition of Petrogas, we have our Canadian LPG storage assets in the Fort and the Gulf Coast as well as our Midstream business has natural gas storage assets in the Mid-Continent, and that does provide us an opportunity and allows us the opportunity to inject product, as you know, when prices are low and to withdraw when prices are high. As well as really balancing our supply for our export business. Acquisition of Petrogas has enhanced our ability to take advantage of these swings, and the team has done a really good job.

Robert Hope — Analyst, Scotiabank

All right. Then just a question on capital allocation. Two things in the MD&A, I thought, were interesting. One, the 40-megawatt standalone energy storage project in Goleta, California. Are you looking to do more on the energy side and reinvigorate kind of your energy business? As well as a comment on potential asset sales in 2021, are you still focused on some nearer-term stuff or is it still—or I'll leave it there.

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

Yes. I mean, look, we're focused strategically, as you know on positioning our long-term strategy of diversified Utilities and Midstream business to power, and so on the power side, where it's not particularly the area of focus. But, in terms of your asset sale, we're committed to getting below and under the 5x. There are certainly scenarios where we could achieve that—exceed guidance in the noncore asset sales.

But I'd point out that we have ample liquidity and that we're not committed to selling those assets and only committed to selling at the right price. I think we're in excellent position from that perspective. But, we'll continue to increase profitability and look at opportunities that can accelerate that deleveraging.

Robert Hope — Analyst, Scotiabank

Thank you.

Operator

Your next question is from Jeremy Tonet with JPMorgan.

Joseph Martoglio — Analyst, JP Morgan

This is Joe on for Jeremy. Maybe if I can just build off the last question a little bit. I think if you could kind of go into the asset sales and what assets specifically—I know you've talked about Blythe in the past and maybe kind of, I don't know, MVP looks like anything there could be later dated. But is there anything else your kind of looking at that could be sold and where discussions are ongoing?

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

Well, we're always looking at opportunities—and good morning, Joe thanks for the question too. Blythe, I'll address that first. That, as you know, is contracted with Southern California through December of '23. Really, with the recent rolling blackouts in California and the value of the grid, that's just been reinforced. It's really in a strong position. In terms of whether we were to have a potential sale there, it would have to be credit accretive. Otherwise, we'd be happy to continue to collect our regular annual contracting cash flow.

While we're confident with MVP's completion over time, clearly, we're looking to that to be derisked before we would monetize that. That's pretty much the two. We're looking at other opportunities with some marketing assets and such. But generally speaking, those are our key noncore assets.

Joseph Martoglio — Analyst, JP Morgan

Okay. Great. Thank you. Then I also wanted to ask kind of on the propane export side. There's the competing terminal coming into service soon and they're also kind of talking about doing an expansion there. Does that impact any of your plans to expand Prince Rupert or kind of thoughts there? Just, I guess, kind of generally, like how do those two terminals compete with each other?

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

Sure. Again, our strategy is to continue to leverage our unique advantage. It really comes down, for us, in terms of scale, efficiency, storage and optimization. We believe that from a competitive position, our assets are least cost and provide excellent markets for our customers. We continue to look there. We believe that, overall, our Canadian market is going to continue to be oversupplied. There's been a variety of different projects that have been cancelled.

Over the long term, we continue to be bullish on our ability to grow and expand our exports. We're pretty much laser-focused in on the logistics aspect of this and to continue to optimize our rail cost and efficiencies. Overall, Petrogas brings a significant scale and opportunity. So, we are I think very well positioned to continue to grow.

Joseph Martoglio — Analyst, JP Morgan

Great. Thank you for taking my question.

Operator

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

Linda Ezergailis — Analyst, TD Securities

Thank you. Recognizing that some of the commodity price strengths starting in 2021 has been a nice tailwind, more than offsetting any sort of FX headwind, can you give us a sense of—when we look at your guidance range, it isn't that wide, recognizing that you've got a substantial proportion of your cash flows and EBITDA fairly secured.

But I'm wondering what are the book ends of—what factors might we want to look at that might cause you to exceed that guidance range, it looks like at this point? But also, what could slip in the year in terms of extremely mild summer potentially in the utilities or something that might cause you to fall below the lower end of your range?

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

Good morning. Thanks for the question. We're off to a good start, right? We're off to a good start with our export business and our utility. In the utility particularly, we have tailwinds associated with settling two rate cases. Key drivers, right, we're on target to meet our goals on cargoes and the tailwinds that we have in the rate case that—and our continued efficiency.

I think that there's opportunities to continue to exceed our targets cargoes as well and to exceed some of our cost savings initiatives going forward. But, we reiterate our guidance, we're confident in where we're headed going forward. James, did you want to add anything to that?

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

Yes. I think you touched on the impacts of some of the colder weather on—around some of our marketing businesses in the U.S. as an area. Just in terms of volumes, we're off to a strong start in terms of export volumes for 2021.

Linda Ezergailis — Analyst, TD Securities

Okay. Maybe I can ask this a different way as well. At what point might management and the Board look at guidance again and have the confidence to potentially modify the range potentially upwards? Is that a big…

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

Linda, yes. No, look, it's a good question. We're still about seven weeks away from reporting Q1. As that starts to come into a clear picture, we would update our guidance range at that point once we've got a clear picture of what volumes will look like in terms of our export facilities and where our marketing businesses and especially in some of the areas where we saw strong pricing as a result of the polar vortex. Once we start to crystallize our views there, then I would say that Q1 is where we would revisit guidance.

Linda Ezergailis — Analyst, TD Securities

Great. That's helpful. Recognizing that you've only gotten keys to Petrogas very recently, and I appreciate that, I'm just wondering how you might evolve your understanding and timeline for achieving synergies on that front over this year as well. I would assume that Q1 would be a bit too soon for that, but maybe you can comment on any sort of processes underway to discover what's possible there and achieve that.

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

Great question, Linda. I'm excited for Randy and what his team is doing and the Petrogas team, as I said in my opening comments, and giving us the ability to load more ships, far more tools in our toolbox, logistics and optimizations. We've really focused on getting that team integrated in the best practices. We're very confident in meeting our targeted synergies. But Randy, you want to add to that?

Randy Toone — Executive Vice President and President, Midstream

Yes. Hi, Linda. We've already realized some of the synergies that you could imagine like office cost and some certain G&A costs are almost immediate. But we've also been able to rationalize our rail fleet. We do see some other savings in rail. Also, like Randy says, we do have more tools to play with, and it's helped us achieve better margins already in Q1.

Linda Ezergailis — Analyst, TD Securities

Thank you.

Operator

Your next question is from Robert Catellier with CIBC Capital Markets. Your line is open.

Robert Catellier — Analyst, CIBC Capital Markets

Hey, good morning, everyone. You touched on this a bit already, but I'd like to know what you're doing to mitigate the third-party logistic issues you're having. How does that risk change with the acquisition and integration of Petrogas?

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

Yes. Good questions. I'm going to let Randy go into some of the details. But clearly, logistics, supply optimization and having more storage for balancing and access to supply at the Fort has been significant. It's not a coincidence that we're hitting on all cylinders, and we're moving in excess of 50,000 barrels a day at RIPET and the ships that we're moving. Randy?

Randy Toone — Executive Vice President and President, Midstream

Yes. I think what Randy said is accurate. We continue to work with our third parties. Their performance has improved, and we see that continuing through the rest of the year.

Robert Catellier — Analyst, CIBC Capital Markets

Yes, maybe, Randy, if you can just comment on how much you think it's under control versus subject to the vagaries of the rail industry?

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

Go ahead, Randy.

Randy Toone — Executive Vice President and President, Midstream

Sorry, Robert, what was that question?

Robert Catellier — Analyst, CIBC Capital Markets

Yes. Maybe if you could just attribute how much you think is the logistics issues are really under your control and can be mitigated through optimization as opposed to some—how much is really the result of certain parties?

Randy Toone — Executive Vice President and President, Midstream

Well, third-party service providers are—they're not in our control. But we do—as we get contracts in place, we communicate a lot, and we're actually investing a lot in real-time data. We always know where our cars are, and we can make decisions quicker. It's just continuing to work with our third-party providers to provide better service. That's all we can do.

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

Yes. I think, look, we make investments in aggregation unit frames that will help those logistics that are in our control, right, that we can build out and leverage the position that Petrogas has at the Fort, increase our efficiencies, improve logistics. There are steps that we can do to help our third parties as well to increase productivity and efficiencies by putting these rails together, these aggregation yards, and shipping more effectively and timely with the unit trains. The team is all over that.

Robert Catellier — Analyst, CIBC Capital Markets

Right. It's a little bit more symbiotic then. Okay. I'm just wondering—we're seeing, obviously, stronger netbacks for the producers, and it looks like there's more egress options on the way here. What are you expecting in terms of when you might see an increase in—a meaningful increase in drilling activity? Or, do you really expect your producer customers to be circumspect with our capital throughout the entire year?

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

Well, again, I think we've seen some serious improvement in pricing. I think the consolidation that is occurring in the upstream business is creating stronger entities. Most of the guidance is that they're going to keep production at the 2020 levels in some cases, but we're seeing behind Northeast B.C. some ramp-ups that are ongoing. I think that upstream community will be prudent, but I think the price signals are such that you'll see some increased activity going forward.

Robert Catellier — Analyst, CIBC Capital Markets

My final question just has to do with Mountain Valley Pipeline. Do you have an updated view as to what a sensible service date might be?

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

Well, I think—I remain confident the pipeline is going to get built. It's 92 percent complete. They're waiting on the nationwide permit while they went ahead and filed with the FERC to outline individual permits. We'll stick with the operators and our partners who are targeting and maintaining the 2021 in-service target as we go forward. There were a couple of positive events in terms of the D.C. Circuit ruling that they could continue construction activity going forward and the extension of the certificate. I think they're continuing to make solid progress. I don't want to get out in front of them on the date that they're looking at.

Robert Catellier — Analyst, CIBC Capital Markets

That's great. Thank you.

Operator

Your final question is from Robert Kwan with RBC Capital Markets. Your line is open.

Robert Kwan — Analyst, RBC Capital Markets

Good morning. I can start with the Midstream business. You talked about operational logistics, tolling at RIPET in terms of derisking. Then you also talked about the Petrogas integration. But I'm just wondering, what other things do you envision for that segment before you feel comfortable that you've got the footprint you need and that it's a mature business? I guess mapping back to the comments you made on the third quarter conference call about the potential down the road to split the business up.

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

Sure. I mean, look, as I've said, Rob, we're focused on our corporate strategy of a diversified Utilities, Midstream business. We continue to believe that our unique and diversified strategy is the right one. I don't think we should expect any news in that regard in terms of anything but executing on our plan to continue to derisk the asset, increase the volumes and go through the integration of that.

That's our focus right now. We're in the early days of executing that strategy that we laid out last year, and that's where I want and where our focus is at the task in hand, because it's a tremendous opportunity for us. That's where we're going to be focused this year.

Robert Kwan — Analyst, RBC Capital Markets

Is there anything that you feel you need, whether that's M&A-wise or major project-wise, to fill in the footprint to reach that vision?

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

Well, look, we just did the M&A when we acquired them, which is increasing. You can see it in the results, increasing our efficiencies, driving down cost, improving margins. Look, we're always on the lookout for opportunities that will strengthen, that will enhance the core business, right, and opportunistically deploy capital. But it's only—like I said, the transaction is only a couple of weeks behind us. In the near term, that's our focus, integration and optimization. But we'll always evaluate any opportunities throughout our business. But, I don't—we don't necessarily believe that we are on the cusp of any major M&A in the Canadian midstream market at this point.

Robert Kwan — Analyst, RBC Capital Markets

Got it. If I can just finish with a small question just on your retail business, based on what you've seen to date in the first quarter. Can you just give some colour on performance, just given weather events can often swing these businesses, the results?

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

No. A fair question, Rob. No, we're fine. If you look at the weather, we're on the—most of us is in the Washington, Maryland area. Most of this weather event clearly was in the majority in Texas and the Mid-Continent. Our retail business and our risk management has been—is in good shape.

Robert Kwan — Analyst, RBC Capital Markets

You were prepared for, given just the cold snap that happened on the East Coast?

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

Yes. We've been—I mean, look, those are full requirement schedules, but we have storage and we—they've done an excellent job, in good shape.

Robert Kwan — Analyst, RBC Capital Markets

That's great. Thank you.

Operator

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

Adam McKnight — Director, Investor Relations, AltaGas Ltd.

Thanks, Megan, and thank you, everyone, once again for joining our call today and for your interest in AltaGas. As a reminder, we will be available after the call for any follow-up questions that you might have. That concludes our call this morning. I hope you all enjoy the rest of your day. You may now disconnect your phone lines.