FINAL TRANSCRIPT

AltaGas Ltd.

Second Quarter 2022 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by.

Welcome to the AltaGas Second Quarter 2022 Financial Results Conference Call. My name is Pam, and I will be your conference Operator today.

All lines have been placed on mute to prevent any background noise. If you have any difficulties hearing the conference, please press *, 0 for the Operator. After the speakers' remarks, there will be a question-and-answer session.

As a reminder, this call is being broadcast live on the internet and recorded.

I would now like to turn the conference call over to Jon Morrison, Senior Vice President, Investor Relations and Corporate Development.

Please go ahead, Mr. Morrison.

Jon Morrison — Senior Vice President, Investor Relations & Corporate Development, AltaGas Ltd.

Thanks, Pam, and good morning, everyone. Thanks for joining us for AltaGas' second quarter 2022 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 operations; and Blue Jenkins, Executive Vice President and President of our Utilities business.

We'll proceed on the basis that everyone's taken the opportunity to review the press release and our second quarter results.

Similar to previous quarters, we've published an earnings summary presentation that you can find on our website. The presentation walks through the quarter and highlights some of the key year-over-year variances and non-reoccurring items that we thought would be useful for the market to understand.

As always, today's prepared remarks will be followed by an analyst question-and-answer period.

As for the structure of the call, we'll start with Randy Crawford providing some comments on our financial performance and progress on key strategic initiatives; followed by James Harbilas providing a more detailed walk-through of our second quarter results, our near-term outlook, and 2022 guidance; and then we'll leave plenty of time at the end for Q&A.

Before we begin, I'll also remind everyone that we will be referring to forward-looking information on today's call. The information is subject to certain risks and uncertainties, as outlined in the forward-looking information disclosures on Slide 2 of our investor presentation, which can be found on our website and more fully within our public disclosure filings on the SEDAR and EDGAR filing systems.

And with that, I'll turn it over to Randy.

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

Thank you, Jon, and good morning, everyone.

We are pleased to announce that AltaGas delivered solid second quarter results, with normalized EBITDA up 7 percent year over year in the quarter, while we continue to execute on our strategic plan.

The acquisition of the remaining equity ownership of Petrogas and our agreement to divest our Alaskan Utilities enhances our energy infrastructure platform and positions AltaGas for continued long-term value creation.

Our ability to recycle capital into strategic growth opportunities and further improve our balance sheet will ensure that AltaGas is well positioned to deliver sustainable future value for our stakeholders.

Second quarter results were underpinned by strong operations in both our Midstream and Utilities segments.

Utilities normalized EBITDA was up 17 percent year over year, and we continued to benefit from the robust capital investments we are making in our network through our various ARP programs.

We remain dedicated to upgrading our asset base and build resilient infrastructure that is focused on improving safety and reliability, reducing emissions, and lowering operating costs, which are all focused on driving better outcomes for our customers.

Our Virginia regulator approved a five-year extension to our SAVE ARP Plan, which provides nearly US$880 million of accelerated investment through 2027, is our most recent example of this commitment. When coupled with our approved ARP programs in our D.C., Maryland, and Michigan jurisdictions, AltaGas has regulatory approval of $1.05 billion of ARP investments into our Utilities through the next five years to ensure we continue to provide safe and reliable service.

We contemplate future extensions of the ARP programs in these jurisdictions and will increase this spending commitment.

We remain committed to operate with a high degree of capital and cost discipline that has been our focus in the past three years and while we remain active in keeping our rates up to date and reflective of the current operating environment. To that end, in June, we filed a rate case in Virginia seeking a US$48 million increase in annual revenues to reflect the impact of increasing cost of capital and plant investments above depreciation not included in the SAVE ARP.

This filing, along with our D.C. rate case filed in April and the new rates in Maryland that became effective earlier this year, will ensure that our rates reflect the appropriate return on investment in our critical infrastructure.

By investing in our system and ensuring our rates remain current, we are well positioned to navigate the current inflationary environment through a modern and efficient platform while driving the best customer and stakeholder outcomes.

As we execute this strategy, we believe that we will continue to deliver steady earnings per share and FFO per share growth for our shareholders.

In our Midstream segment, we continue to capitalize on the tremendous opportunity to export cleaner-burning LPGs to Asia from Western Canada and the Northwestern US to meet the rising demand for lower-carbon LPGs.

In the second quarter, we shipped approximately 111,000 barrels a day of propane and butane to Asia, representing a 26 percent increase compared to last quarter and another record for our company.

In a span of just over three years, we have taken our Global Export business from 0 to exporting over 100,000 barrels of North American LPGs to premium markets in Asia, which now represent more than 10 percent of Japan's annual propane and South Korea's total LPG imports.

While operationally we excelled in the quarter, the financial performance of the Global Exports platform was slightly behind our expectations due to hedging timing, certain inflationary pressures, and other headwinds.

The good news here is that our push to significantly increase volumes has helped us identify areas of manageable improvement in our value chain, such as rail and ocean logistics and our supply acquisition and hedging strategies. Sustainable improvements in these areas, coupled with our demonstrated ability to increase volumes from our export platform, provide AltaGas the opportunity to further enhance our financial results as we continue to connect our upstream and downstream customers for the best industry outcome.

And I'm pleased with our achievements this quarter, particularly in the context of global energy crisis as the world comes to terms with the energy shortage and the importance of securing access to reliable, safe, affordable, and responsibly-produced energy to power everyday life.

Looking forward, the strategic initiatives we accomplished in the first half of 2022 have positioned AltaGas with the enviable ability to simultaneously advance the significant pipeline of growth opportunities in front of us, while reducing our leverage ratios and providing steady and consistent dividend growth for our shareholders.

I'm proud of the role AltaGas plays in providing access to affordable and diverse energy sources, both domestically, within North America, and to global markets.

I will turn the call over to James to review the financial results in more detail.

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

Thank you, Randy, and good morning, everyone.

During the second quarter of 2022, AltaGas achieved normalized EBITDA of $246 million compared to $230 million in the same quarter last year, representing a 7 percent year-over-year increase; normalized FFO per share of $0.60 in the second quarter of 2022 compared to $0.56 in the second quarter of 2021, representing an 8 percent year-over-year increase and continues to provide the foundation to fund organic growth and returns of capital to shareholders.

Normalized EPS of $0.08 in the second quarter of 2022 was consistent with the same quarter of last year.

Digging into our segmented results for the quarter, normalized EBITDA in the Midstream segment was $133 million compared to $142 million in the second quarter of 2021.

Our Global Export platform achieved record volumes during the second quarter, shipping approximately 111,000 barrels per day of combined propane and butane to Asia spread across eighteen ships and one partially loaded ship.

This represented a 23 percent year-over-year increase in volumes relative to the second quarter of 2021, with RIPET exporting approximately 64,000 barrels of propane on 10 full and 1 partially loaded ship, while Ferndale exported approximately 47,000 barrels of combined butane and propane on 8 ships.

Record export volumes continue to be driven by strong offtake demand in Asia.

Strong Global Export volume growth was offset by a number of factors, including a $20 million negative impact from hedge timing on Global Export volumes that were loaded at the end of the first quarter, with the corresponding hedge loss not recognized until delivery in the second quarter of 2022; lower margins on tighter North American to Far East spreads, particularly butane volumes; and increased logistics costs due to higher rail and ocean freight.

Of note, the tighter butane spreads in the second quarter were principally a function of North American pricing for butane rising along with crude prices while Far East butane prices didn't lift to the same extent, as we were in the shoulder season for LPG demand in Asia in the spring.

As we move toward the fall, we would expect Far East to North American spreads to widen in order for the Far East market to continue to track incremental barrels from global markets to meet local market demand, which is in line with the traditional seasonality.

Inlet gas volumes at our facilities were slightly lower year over year as a result of four scheduled turnarounds in the quarter, including Harmattan, Townsend, Gordondale, and North Pine.

We continue to have a healthy hedge position with our Midstream platform, with approximately 51 percent of Global Export volumes tolled or hedged for the balance of the year. This includes an average

FEI to North American financial hedge price of US$12.66 per barrel. We also have 75 percent of our expected frac exposed volumes hedged for the remainder of 2022 at $34.68 per barrel.

Our Utility results reflected the normal seasonal slowdown in natural gas demand that is associated with the spring and summer months. Normalized Utilities EBITDA was $116 million in the second quarter of 2022 compared to $99 million in the comparable quarter of last year.

The 17 percent year-over-year increase was driven by continued rate-based growth through ongoing ARP investments, customer growth, strong retail contribution, and higher asset optimization in the quarter, partially offset by increased operating costs.

Washington Gas reported normalized EBITDA of $65 million in the second quarter, up 16 percent year over year, driven mainly by continued ARP investments and customer growth, the impact of the Maryland rate case, as well as asset optimization and higher base usage, partially offset by increased O&M costs.

SEMCO and ENSTAR's combined normalized EBITDA was $35 million in the second quarter, up $2 million from the same period last year, driven by customer usage and growth, partially offset by higher O&M costs.

As a reminder, we expect the sale of our Alaskan Utilities to close in the first quarter of 2023 and therefore expect ongoing contributions for the remainder of the year.

And finally, the Retail business generated $16 million in normalized EBITDA, up $6 million year over year, which included stronger optimization margins and lower than budgeted gas costs, which was partially offset by higher PJM costs.

Some of this strong performance is expected to be reduced in future quarters as a portion of the out-performance is timing related.

The Corporate and Other segment reported a normalized EBITDA loss of $3 million in the second quarter of 2022 compared to an $11 million loss in the same quarter of 2021.

The $8 million year-over-year increase in normalized EBITDA was mainly driven by lower corporate expenses primarily related to AltaGas' strong operating performance and higher employee incentive plan costs associated with the second quarter of 2021, driven by AltaGas' rising share price last year.

Year to date, AltaGas has experienced many of the same inflationary pressures that are being seen across the global economy. Although the Company is well protected against these inflationary pressures through its cost-of-service operating model in the Utilities and through take-or-pay and fee-for-service contracts within its Midstream operations, AltaGas has an acute focus on judiciously managing all controllable costs to protect its customers and deliver the lowest cost possible.

As Randy mentioned, we have had a very active first half of the year in terms of corporate development activity as we announced plans to divest our Alaskan Utilities, and we acquired the remaining equity interest in Petrogas from Idemitsu. We believe both the transactions will drive long-term value creation for our stakeholders, and allow AltaGas to continue to achieve the corporate objectives that we have set for ourselves.

Looking ahead, we continue to focus on our corporate strategy, connecting customers and markets, and delivering durable and growing EPS and FFO per share, while lowering leverage ratios over time.

We are maintaining our 2022 guidance ranges, including normalized EPS of $1.80 to $1.95 a share, normalized EBITDA guidance of $1.5 billion to $1.55 billion, and a 2022 capital plan of approximately $995 million.

And with that, I will turn it over to the Operator to open the call for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now conduct the analyst question-and-answer session. If you'd like to ask a question, please press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, 2.

There will be a brief pause while we compile the Q&A roster.

Your first question comes from Dariusz Lozny with Bank of America. Please go ahead.

Dariusz Lozny — Bank of America

Hey. Good morning, and thank you for taking my question. Just wanted to start off on the acquisition of the remaining stake in Petrogas. Can you maybe just talk a little bit about the timing, sort of how the purchase came to be? Did your partner approach you about acquiring the remaining stake? To the extent that you can comment. And also if you could potentially comment on the difference in valuation relative to the majority stake that you purchased back in 2020?

Randy Crawford

Hey. Good morning. Thank you for the question. This is Randy. Just a couple of comments and appreciate the question.

From our perspective, it was a good purchase, and we believe in the assets and its capabilities and really the value proposition. And we wanted to have more exposure to it for these reasons. And our partner had looked at monetizing that position and that's basically how that came about.

But from our perspective, having complete control, streamlining the corporate process, and as I said, we believe in the asset because of its position on the West Coast, and the fundamentals and optionality that it provides, so from our perspective acquiring that remaining stake is just going to enhance the flexibility optimization of the LPG export growth.

From that standpoint, we felt it was a good purchase and the timing fit really well.

James Harbilas

Dariusz, it's James here. And from a valuation standpoint, I mean, obviously the initial interest that we acquired was a controlling interest and that's what gave us operational control over that facility when we acquired SAM Holdings, the founder's original interest. And obviously, Idemitsu's was a minority interest with obviously limited governance rights.

And that factored into the valuation difference between the two stakes as well.

Dariusz Lozny

Got it. That's helpful. Thank you very much. One more, if I can, maybe just pivoting over to the Utility. It looks like the D.C. city council has passed a resolution that would limit commercial gas hook ups in new buildings later in the decade. So it's not an immediate impact.

But just curious, I mean, it doesn't seem like it'll be a large or simply a near-term impact on numbers. But just how are you thinking about that just kind of long term strategically as you think about deploying capital and growing your rate base across the WGL footprint?

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

Yeah. Hi, Dariusz, it's Blue. Thanks for the question. Yeah. So as you know, if you've had a chance to look at it, so the bill requires the mayor to issue regulations that update commercial buildings with energy conservation codes by December of 2026. So we've still got a ways out.

It also covers remodels for buildings over 50,000 square feet as long as it's more than 50 percent of the prior value of the building. So it's kind of a fairly narrow script, if you will.

For us, you talk about the growth profile, no real impact to WGL for C&I in the district, as C&I isn't really a growth area. Over calendar years 2020 and 2021, we only had five net C&I adds in D.C. itself, so it represents less than 1 percent of our C&I customer adds over the period. Ninety percent of the adds happen in Northern Virginia and that's a trend we've seen for a while.

So we've got some time to work with the mayor and her staff on what that means and how it approaches. But we don't see it having a significant impact, given the focus on C&I in the area.

Dariusz Lozny

Great. That's very helpful. I'll turn it back here. Thank you.

Operator

Your next question comes from Robert Hope with Scotiabank. Please go ahead.

Robert Hope — Scotiabank

Good morning, everyone. Wanted to take a look at the Global Export business. Can you just talk about what the key drivers were for the strong growth on a quarter-over-quarter basis? Was this partially timing related for ships? Or is your logistic capabilities increasing such that this is a relatively good run rate here?

Randy Crawford

Hey, Robert. Randy Crawford. Thank you for the question, and good morning.

Look, the record volume is a major milestone for us. And it's really proven that the assets can do it and they have robust demand as well and that creates real value. And to have that optionality to consistently move those barrels is going to provide and has provided substantial and sustainable value.

So really it does come down to what we've been able to prove out that we can move these volumes consistently. And we see a robust demand going forward. So this ramp up of 110,000, it's allowing us to identify some of the issues and opportunities that we can address the clarity and to fix as we push this envelope. But clearly, we're seeing robust demand, and well we think we can profitably keep it in and around these levels going forward.

But again, those will fluctuate. But the key driver is to prove out that we can move that level of capacity. And I'm really pleased with the value created as a result.

Robert Hope

Excellent. And then a follow-up question there is that we have seen volumes increase, but the amount of long-term contracts at the facility has been a little stagnant. What has the tone been regarding your conversations with contracts with the producers? Are they just trying to figure out what the world looks like just given the commodity price environment?

Once there's a better impact, or an estimate impact of what Heartland does to the propane market, could you see contracting discussions accelerate maybe towards the end of the year into 2023 for long-term contracts?

Randy Crawford

I think, yeah, the answer's yes. I mean, look, the recent strength in the fundamentals and the improving commodity price has certainly been working out in our favour in terms of supporting these conversations. And we're recently and have been seeing increasing interest not only from producers, Robert, but aggregators who want to participate in the upside of having direct access to Asian pricing, so in the demand side as customers in Asia look to reach back into the basin and secure supply.

So again, we're having strengthening fundamentals, strong conversations, and de-risking the Midstream and energy export remains a top priority for us. So I would just comment that, yeah, the conversations remain constructive and it's a top priority.

Robert Hope

Excellent. Thank you.

Operator

Your next question comes from Robert Catellier with CIBC Capital Markets. Please go ahead.

Robert Catellier — CIBC Capital Markets

Hi. Good morning, everyone. I'm going to start with Petrogas. Now that you have it fully under control, how can you accelerate the integration and development of the Petrogas asset and the energy export terminals?

Randy Crawford

Well, thank you for the question, Robert. I think you're seeing it. I mean, we took over operational control. Randy and his team have been driving a great deal of the optionality as we move cargos between even both of our ports and maximize the value between the two products and then optionality. So I think that flexibility of operating those two West Coast facilities is very helpful.

Another real attribute and value is the difference in rail deliveries. And so we have optionality to move on different rails, which will help us to manage our cost going forward and to maximize flows either into Ferndale or RIPET.

And so from a corporate perspective, we're indifferent, and it gives us a lot of optionality and flexibility to create value for all of our customers and shareholders.

Robert Catellier

Okay. And just on the inflation front here, when you look at the Utility CapEx, is inflation more likely to cause an increase in Utility CapEx and delay leveraging? Or will it simply result in less progress on ARP programs or other initiatives for the same amount of spending?

Blue Jenkins

Yeah. It's a good question. This is Blue. It's primarily where we would see it is we would get slightly less work done for the same dollars. We wouldn't expect to increase the CapEx per se.

I would highlight for you that we're reasonably well protected inside this year just on the way we contract for our materials, as well as our contractors and service providers. So we have contracts that focus more on a per unit payment structure. So our contractors are incented for efficiency as well.

But primarily it means you might get a bit less work done for the same dollars.

Robert Catellier

Okay. Thank you. And then last question here, a little bit of a shot in the dark here. Previously, the Company had some small- to medium-sized LNG projects. I wonder if you still have those or if those were disposed as part of some of the asset sales? And if you still have them, is there any interest in rekindling those?

Blue Jenkins

No. We do not have those at this point in the future. But overall, in terms of our DNA, we're focused on the LPGs and all of the development. And there's significant opportunities, I think, to expand our growth around the LPGs. And that's primarily our focus.

Obviously, with the increased production of natural gas, that comes with associated liquids and I think those are all important factors in our growth story. But those particular projects are not in our portfolio.

Robert Catellier

Okay. Thanks very much, guys.

Operator

Your next question comes from Ben Pham with BMO. Please go ahead.

Ben Pham — BMO

Hi. Thanks. Good morning. I had a couple questions on Petrogas and LPG Exports. And the first one's on with your leverage expectations of EBITDA when you factor in Petrogas, is this a trend leverage creeps up a bit in near term and then it drops much more as you look towards '23 versus what you're planning before?

James Harbilas

Ben, it's James here. From a leverage standpoint, we obviously saw a slight reduction in leverage when Tourmaline exercised their buyout on our non-operated interest at Aitken Creek. And when we decided to recycle that capital and deploy it to the purchase of Idemitsu's minority interest, we basically took back leverage to where it was before the exercise and close of the Aitken Creek facility.

So I wouldn't necessarily see it as a creep-up from where we were exiting 2021. And then obviously, you touched on the most salient point. As we head into 2023 and we close the ENSTAR transaction, we would see a meaningful deleveraging event as we apply the proceeds from that sale to outstanding debt on our credit facility.

So overall, we would expect a leverage reduction from ’21 as a result of the ENSTAR sale. And we consider the Petrogas transaction more or less leverage neutral when you reallocate the proceeds we received on the Aitken Creek facility to the purchase of that minority interest.

Ben Pham

Okay. Got it. And I know you mentioned some of the seasonality of butane spreads and spreads in general versus Q2. But really, directionally, is it correct to think that as the volumes continue to ramp up on LPG exports that you will see more of a structural declining in spreads?

And then maybe another one related. Have you seen any change in conversations with producers with petrochemical as an alternative for propane?

James Harbilas

Yeah. On butane spreads, I mean—and we touched on it in our prepared remarks—if you look at Q2, we had FEI pricing in a shoulder season, so we didn’t see a real ramp-up. But WTI, which is where we’re buying butane as a percentage of WTI, we saw WTI prices run up. And we’ve also seen strong local pricing for butane, which squeezed our butane margins. And that was something that we signalled in Q1 when we had our prepared remarks.

Where we are today, though, we’ve seen WTI moderate a little bit, obviously. And local butane prices have moderated a bit too. And then to the back half of the year, we’re entering stronger demand for butane in Asia, so we would expect FEI to rally.

So we see the back half of the year as having margins on butane that expand from where they are today.

Randy Crawford

And, Ben, this is Randy. On your question about PDH plant and Canadian supply, there's robust demand, as you saw for Canadian LPGs globally and Asia. And we have the egress solutions and the best market for those. And we factored in the plant coming online into our models. And that was even at the time when the market dynamics were not as robust as they are today.

And so we feel that there's a lot of headroom for increased production and moving of additional volumes.

Ben Pham

That's great. And maybe lastly, can you remind me, Randy, what is your contracted targets at RIPET or Ferndale? Or on a consolidated basis?

Randy Crawford

In terms of the export volumes, Ben? In terms of the volumes—

Ben Pham

Yeah. I think you're around 30 percent right now—correct me if I'm wrong—and you have targets to go to 40, 50, I think, per year annum. Is that still the plan? Or has it changed? Or just wanted the latest on that.

Randy Crawford

No. Sure. No. The plan and the commitment to de-risking and contracting these volumes hasn't changed in terms of that. But as we increase the amount of volumes through there, that has an effect on the overall percentages.

But overall, we want to be able to continue to de-risk that platform. And we're having, as I said, very constructive discussions with both the market, as well as producers looking at, quite frankly, hybrid models of tolling where we share in some of the upsides as well.

And so we think that—we're not stating a specific percentage, but you'll see that volume continue to increase. And then what we'll do is we'll continue to export additional volumes over and above the levels that they're at.

So at this point the goal is to continue to do that and we'll do it. So specific percentages will depend on the quantity of volumes. But expect overall increase in tolling and de-risking throughout the year.

Ben Pham

Okay. That's great. Thank you.

Operator

Your next question comes from Andrew Kuske with Credit Suisse. Please go ahead.

Andrew Kuske — Credit Suisse

Good morning. Maybe if we just focus on the core Utility business and just what you're seeing from a customer standpoint. Are you seeing an increase in bad debts? Any bill pressure? Delays in payments? And then any mitigation programs you have around that.

Randy Crawford

Sure. Thanks for the question. So just a couple of comments. I'll let Blue chime in on some of the specifics here, but basically these increases in the cost of natural gas and the value of price of natural gas is unfortunate, especially when we have the resources in the US to develop and mitigate these increases.

And unfortunately, to increase production, we need increased capacity to the markets. And as you know, building a pipeline has been challenging in the US around public policy. The reserves are there, producers want to develop them responsibly, and we need to see clear to move these forward.

So these increases are unfortunate. But they disproportionately affect, to your point about the Utility, the least capable of absorbing them. And that's exasperating this issue.

So otherwise, Blue and his team have been investing money, improving the system, lower operating costs, managing inflation, providing a higher quality of service. And we continue to work with our public utility commissions. And we're looking at finding new ways to fund these increases in gas cost and to protect the most vulnerable in our system through our low-income programs. So a big focus on that as we move forward.

But the overall macro is that as a public policy matter we feel that these prices should be coming down, but we need to build pipelines. And at this point, working very closely with the commissions.

Blue, did you want to add to that?

Blue Jenkins

Yeah. Thanks, Randy. I think you hit the highlights. I'd add just a little bit of colour on a couple of things.

To Randy's point, so we're very focused on trying to manage cost all the way through the process, knowing it impacts our most vulnerable customers the most. So you will see us—the specific answer to your question is, are we seeing an increase in bad debts? The short answer to that is no. We have not seen that yet.

Been a very focused effort with the team to ensure that there are payment programs and other opportunities to help customers keep current. We've also been very focused on ensuring that our customers have access to those third-party programs that are available, LIHEAP and others, to help them as appropriate. And you will see us in our most recent D.C. rate case for those that are defined the most energy vulnerable, we've actually proposed increasing some credits on a year-round basis to help offset the impact.

So we're trying to do what we can to protect and help those who are most impacted. But to date, we have not seen an increase in bad debt, so.

Andrew Kuske

Okay. Appreciate the thorough answer. And then maybe it segues into the related question, what are you seeing just on appetite for customers to go towards things like RNG-related options where big growth area, carbon friendly, but obviously there's a pricing pressure issue across the industry right now?

Blue Jenkins

Yeah. Good question. Obviously it depends on the customer segment. So we are actively working through the RNG opportunities in our respective market areas. We certainly have appetite from our transportation customers. We're seeing it in our larger C&I, particularly data-centre customers, those type of things. So certainly an appetite there.

As you roll it through, you saw legislation in Virginia that gives us the opportunity to bring RNG and other lower-carbon options into the fuel mix. So certainly see an appetite. It is customer-class specific in many cases.

Andrew Kuske

Okay. Appreciate that. Thank you.

Operator

Ladies and gentlemen, as a reminder if you do have any questions, please press *, 1.

Your next question comes from Robert Kwan with RBC Capital Markets. Please go ahead.

Robert Kwan — RBC Capital Markets

Morning. Just starting high level here with guidance. Can you just talk about and just give an update as to the different headwinds and tailwinds you're seeing as we're now halfway through the year? And as part of that, are there any moving pieces outside of the ordinary kind of commodity prices, weather, and FX rate?

James Harbilas

Hey, Robert. It's James here. In terms of guidance, I mean, obviously we do expect to be in the range. And in terms of tailwinds, to your specific question, and headwinds, on the tailwinds side we are seeing stronger frac spreads that we've been able to capture. And that's going to benefit us for the balance of the year. The PEC acquisition that we undertook is going to benefit us from an EPS standpoint, but not necessarily an EBITDA standpoint because we were already consolidating 100 percent of that EBITDA.

And then FX, you touched on, has been a tailwind as well, just given where it is today versus were we set our guidance back in December of '21. And then stronger volumes in the first half of this year with respect to Global Exports and the performance of the Retail business have all been tailwinds.

In terms of headwinds, obviously the butane margins that we've experienced here in the first half and that we called out early in the year being compressed relative to last year has been a headwind. And then the Aitken Creek purchase was also something that was unexpected when we set our guidance. And we've also incurred some increased customer cost at the utilities to address customer service levels there and make an investment in the customer experience. So those were all headwinds.

But when you kind of take a step back and you look at all the pluses and minuses, we expect to be in the range despite some of those headwinds.

Robert Kwan

That’s great. Just drilling down into the Midstream logistics and timing, you obviously called out the hedge timing, which can reverse out. But just on the OpEx, and you noted OpEx improvement, so can you just talk about—like are you able to quantify what those opportunities might look like? What are the greatest opportunities? How quickly you can get at them? Put differently, how much of the impact in the quarter do you think you can improve on a sustainable basis?

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

Hi, Robert. It’s Randy Toone. As far as operating cost, we’ve been working quite hard on logistics. So logistics is one of our biggest costs to get products from the source to Asia. And we’ve had a big focus on that for a number of years. And we’re working with our service providers to get those costs down. We know it’s a vital thing to be sustainable and to grow our volumes. And so we will continue to work with our service providers to lower that cost. So it’s going to be mostly on logistics.

Also if you look at these time charters, we’ve got a one-time charter this year. That’s helped reduced our ocean freight. And we have two more time charters coming on next year. And we feel that that’s going to definitely help lower our freight rates going across the ocean.

James Harbilas

And, Robert, I wouldn’t mind just adding that—

Robert Kwan

I guess—

James Harbilas

Sorry. I just wanted to add to Randy Toone’s comment. Not necessarily from the logistics standpoint, but the one thing that we want to highlight is when it comes to supply costs on the Global

Exports as well, we had turnarounds at four facilities which took equity barrels that we have offline, right? So those impacted margins with Global Exports as well.

And obviously with the turnarounds behind us now, that's something that's not going to happen in Q3 and Q4. So we would have access to those equity barrels as well.

And the turnarounds just from the Midstream platform as a whole reduce, obviously, volumes and corresponding EBITDA by about $9 million as well. And that kind of obviously doesn't reoccur in the back half of this year as well.

Robert Kwan

No. That's great. So $9 million from the turnarounds. Does that include the higher supply cost because you didn't have the equity barrels and you had to go out and source them elsewhere? Or—

James Harbilas

No. No. That would be in addition to the nine.

Robert Kwan

And like are you disclosing roughly what that amount might be?

James Harbilas

No. We're not getting that granular. But I did want to point out that that was part of the margin compression.

Robert Kwan

Okay. And would you be willing to disclose just on the OpEx side like how much did you see that increase in the quarter versus how much you think you can get back with some of the initiatives that you've been talking about?

Randy Toone

It’s Randy Toone again. I think we’re hopeful that if you look at our logistics costs, we did see in Q2 higher fuel costs. Like the cost of diesel went up and we also saw higher rates, and so we’re working with our service providers to reduce that. And so I would say we’d see say anywhere from $2 million to $5 million for the back half of this year of savings.

Robert Kwan

That’s great. Thank you very much.

Operator

Your final question comes from Matthew Weekes with iA Capital Markets. Please go ahead.

Matthew Weekes — iA Capital Markets

Good morning. Thanks for taking my questions. I was just wondering with the Virginia with the expanded ARP program that was approved there and in general in the core utilities, are you seeing sort of expanded spending profiles resulting from higher cost to sort of execute these programs? Or is that kind of playing into sort of the capital profile of those businesses?

Blue Jenkins

Yeah. Hey, Matthew. It’s Blue. I’ll answer your question. So what we’re seeing—I think I alluded to it in one of my questions earlier—we’re seeing inflationary costs in certain subsets of our business.

I think what you see from the Virginia SAVE approval is a recognition by that governing body that the work we’re doing there is having a positive impact in upgrading our system, keeping our operating costs low, and reducing our climate impacts. And therefore, I think that’s why you saw that extension. We’re being very conscious on the cost space there.

Where we're seeing our biggest cost pressures are anything to do with fuel-type costs. So the fleet component is impacted. Certainly paving costs are up; that's a high energy use component. But we're seeing that across all aspects of industry, certainly not just our work.

But we believe that the work being done through those ARP programs is having a very positive impact on both our customers and our system from a lower forward operating cost, as well as a lower or more positive climate impact as we try to help the region meet the goal.

So I don't know if that answered your question, but that's what I'd focus on.

Matthew Weekes

No. That's perfect. Thanks. And I just want to follow up on that. And given that sort of, I think, the growth trend in the Utilities do appear positive and there's quite a robust growth profile happening there, would you say thinking about the ENSTAR monetization that's set to happen and taking into account Petrogas, are you comfortable with sort of where the balance sheet's going to be at going into 2023 to continue to fund the kind of growth that you expect?

James Harbilas

Yeah. I mean, Matthew, it's James Harbilas here. So the short answer is yes. I mean, obviously, even before we monetized ENSTAR this year, we had a fully funded CapEx program for 2022.

Looking out into 2023, obviously, once that deal closes we'll reduce leverage. It creates a lot of balance sheet capacity for us to pursue organic growth in the Midstream platform, as well as to execute on the 8 percent to 10 percent rate-base growth that we see coming out of the ARP programs that have been expanded by Virginia.

So there's still a lot of main to replace, as Blue suggested, in all our jurisdictions. And obviously, by investing in that type of capital we're improving reliability on the system, reducing leaks, and making the system a lot safer. So we can fund that ARP growth at 8 percent to 10 percent that we've outlined.

Randy Crawford

Yeah. This is Randy. I'll just add, and James described it well, but in fact the sale of the Alaskan Utility really has provided us enough liquidity to fund both of our businesses and to grow the individual bases even larger and to position us down the road for continued growth.

And so that's really the strategy; positions us quite well to execute on our enviable growth opportunities.

Matthew Weekes

Okay. Thank you. I appreciate the commentary on that. I'll turn it back. Thanks.

Operator

This does conclude the Q&A portion of today's call. I'd now like to turn the call back over to Mr. Morrison.

Jon Morrison

Thanks, Pam. And thanks, everyone, for joining us on the call and for your continued interest in AltaGas.

That concludes our call this morning. I hope everybody enjoys the rest of your day, and you may now disconnect your line.