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ALA.TO - Q3 2018 AltaGas Ltd Earnings Call

EVENT DATE/TIME: OCTOBER 30, 2018 / 3:00PM GMT

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the AltaGas Third Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. (Operator instructions.] As a reminder, this conference call is being broadcast live on the Internet and recorded.

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

Adam McKnight

Thank you. Good morning everyone, and welcome to AltaGas' third quarter 2018 earnings call. Speaking on the call this morning will be David Cornhill, Interim Co-Chief Executive Officer, and Tim Watson, Executive Vice President and Chief Financial Officer. Also joining us on the call today is Phil Knoll, Interim Co-Chief Executive Officer, along with a few additional members of our executive team.

The prepared remarks on today's call will be followed with a question and answer period, and we'd also like to remind everyone that the Investor Relations team will be available after the call for any follow up questions that you might have.

I would like to point out that presentation slides have been made available on the webcast. And for those of you joining us on the phone lines, the slides are also available on our Events and Presentations webpage, and we encourage you to view them. Please note, however, that the presentation slides are for your reference only and do not follow directly along with the prepared remarks.

Before we begin, I'll 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 two of the presentation and more fully within our public disclosure filings on both the SEDAR and EDGAR systems.

And with that, I'd like to turn the call over to David Cornhill.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Thank you, and good morning everyone. I expect this will be my last earnings conference call. I'll miss meeting with the great shareholders and members of the analyst communities. The conversations we've had over the past few months have been very helpful to me and AltaGas.

AltaGas has never been better positioned as a company in terms of the quality of assets and strength of opportunity. Unfortunately, we have never seen such lack in confidence in the company, which is evidenced by the stock that has significantly underperformed and yields over 10% currently. We recognize this, and we are working hard to earn your confidence back.

Over the last 18 months, we have seen tremendous change at AltaGas, but we have also seen the capital markets and their appetite for funding growth changed as well. We could not, due to the restrictions put on us by the approval process of WGL and the bridge facility, make the operational and financial moves we needed to position AltaGas well for the new environment. We understand, and we're taking steps to strengthen our balance sheet and position AltaGas for value creation.

When we spoke on the Q2 call on August 1, we committed, by the time of this call, to focus our business on gas and U.S. utilities; complete over CAD 2 billion worth of asset sales; and pay down the bridge financing -- to pay down the bridge financing; also to provide plans for repaying the remaining balance of our bridge facility by year-end.

We have met those commitments. Some may have not agreed with each step taken, but we always look to balance short term financial requirements with long term value creation opportunities. We also strove to stay true to our culture as we proceeded down the asset sale path to ensure we balance the needs of our employees and all stakeholders.

We are entering the second phase of our plan. This stage will strengthen our balance sheet and the transition from interim co-CEOs to new CEO. We are planning to sell additional assets and expect to raise over CAD 1.5 billion. Several asset sales processes are underway, including selling down our ownership in the Northwest Hydro asset.

We heard loud and clear from our shareholders that equity is precious. AltaGas plans to suspend the premium DRIP plan at year-end. AltaGas has had investment grade credit since 1998, and it's very important to us today and into the future.

Finally, we're moving forward on the CEO search, and I'm confident we will be able to provide clarity in the next several weeks. The final stage of reshaping AltaGas with its focus on gas and U.S. utilities will be led by the new CEO, who will optimize our business and continue to refine our asset portfolio. We would expect the new CEO to continue to look at ways to strengthen the company's balance sheet.

Before I turn the call over to Tim, who will outline our financial framework in more detail as well as discuss the third quarter financial and operating results, I want to share a learning from AltaGas's first major acquisition. In 1998, we acquired our first natural gas utilities and closed in mid June. You never want to close a utility acquisition in the summertime because they are break-even at best in the third quarter. Due to the long regulatory process, we closed WGL at the start of Q3, and the first quarter we reported WGL's results was their weakest quarter.

I will now pass the call on to Tim.

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

Okay. Well, good morning everyone. As David mentioned, we have never had a better set of assets. We have a clear line of sight on significant high quality growth opportunities, and we want to be able to execute on them for our shareholders. But in order to do that, we need to address and strengthen our financial flexibility and optimize our cost of capital.

Over the next couple of weeks, a few key events are taking place. We will be finalizing our capital plan for 2019, and have a line of sight on the multiyear capital plan. We will have a better view of our EBITDA and FFO outlook for 2019, including credit metrics, as we complete our normal course annual planning process. And importantly, we expect to have the results from the annual review process with S&P.

All of these pieces are connected and will allow us to give you a more fulsome view of our financial outlook and next stage of investment and growth at a reshaped AltaGas. While we still have made progress -- excuse me, let me start again. While we still have progress to make in strengthening our balance sheet by de-levering and applying even more discipline to our allocation of capital, we have to remember how far we've come in the last few months.

It has been less than four months since we closed WGL, and we have completed a significant portion of funding steps to rapidly repay the bridge facility, and we continue to expect the bridge to be fully repaid this quarter. As an energy infrastructure and utility business, we put a lot of capital to work, so capital discipline and a strong cost of capital are key ingredients to long term success and the ability to create value for our shareholders.

Our objective is clear, to regain our financial strength and flexibility, maintain our investment grade credit rating, and to strengthen our cost of capital. This is a process that will not be accomplished overnight. First, we expect to minimize our reliance on equity capital markets and maximize per share funds from operations and earnings. As we move forward, we will be heavily focused on earnings per share and FFO per share growth along with the typical credit metrics, being FFO to debt and debt to EBITDA.

To fund key projects that meet or exceed our return metrics, we plan to sell additional assets within AltaGas. We've identified CAD 1.5 billion to CAD 2 billion of additional asset sales to be undertaken in the near term. These asset sales will be accretive and aligned with our underlying strategy to focus on gas and U.S. utilities. This will include an additional interest in the Northwest Hydro facilities.

Turning to capital discipline and dividend philosophy, capital discipline needs to be balanced with the rich and diverse platform of organic growth opportunities that we have in front of us for 2019 and beyond. We will only be executing projects that provide the strongest risk-adjusted returns and long term value creation for our shareholders.

We will be focusing on projects with organic growth potential and favorable risk profiles that fit with our strategy. Further to this, we're also favoring projects with strong returns and more immediate cash flow rather than projects that require long term investment prior to realizing a return. This is a prudent manner for us to deploy capital in the near term as we focus on strengthening our balance sheet and deleveraging without impacting long term value creation for AltaGas.

Turning to our dividend, this has been an area of focus by the capital markets lately, given where the stock is yielding. We have determined, not surprisingly, that growing the dividend at this time is not appropriate. What we need to assess now in the mix of other factors is what constitutes a sustainable and ultimately growing dividend for the reshaped AltaGas.

It's really a matter of short term yield versus long term growth. With our business mix changing significantly, including the higher contributions from utilities, an appropriate payout for our new longer term asset mix must be identified. A sustainable payout ratio provides additional funding flexibility and allows for long term dividend growth in line with earnings and cash flow per share growth.

Moving on to the balance sheet and financing, let me start by saying we value our investment grade credit rating. A strong balance sheet and investment grade credit rating will position us for greater flexibility and growth going forward. We continue to work with S&P to ensure that our final plan will achieve an investment grade credit rating, and expect to provide an update to you in November.

We've made significant progress on our funding plan to pay down the bridge loan used to fund the WGL acquisition. Recall that with the 35% sale of Northwest Hydro in June, we only drew down $2.3 billion of the bridge, and the additional asset sale steps announced in September and October will reduce the outstanding bridge amount to $1.2 billion. We are on track to repay the remaining amount by year-end, notwithstanding that most of the bridge does not mature until January 2020. This remains a top priority because it creates financial flexibility and allows us to move forward.

The future path will be tailored to optimize our funding and cost of capital. As part of the strategy to minimize common equity requirements, the Board has decided to turn off the premium DRIP at the end of 2018. In the near term, as stated, we intend to sell an additional CAD 1.5 billion to CAD 2 billion in assets to fund attractive identified capital projects focused on gas and U.S. utilities, as well as to align the underlying assets of the business to our strategic focus.

So hopefully we've been able to give you some color here on our funding framework going forward, and I'm now going to turn to the operational financial highlights of the third quarter. We'll go through those pretty quickly, starting with utilities.

Things are progressing very well regarding the applications filed earlier in the year in both Maryland and Virginia. In Maryland, several rounds of testimony were filed in September and the hearings were held in early October. We expect to have an order on this application in mid December, with new rates taking effect January 1, 2019.

In Virginia, the new interim rates will be effective in January 2019, and the hearing is scheduled for late April with a decision expected in the first half of the year.

At SEMCO, work continues on the Marquette Connector Pipeline, which will provide system redundancy and increased deliverability, reliability, and diversity of supply to our SEMCO customers. We received approval for all environmental permits in September. Construction is expected to begin in 2019, and the project is on schedule and anticipated to be in service near the end of Q4 2019.

So AltaGas now has a total rate base in its regulated U.S. utilities of approximately CAD 4.4 billion, serving approximately 1.6 million customers in five jurisdictions. We have significant opportunities to grow our rate base with approved system betterment and the accelerated pipe replacement programs in Virginia, Maryland, and Washington, DC. Through these programs and the regulatory applications in both Virginia and Maryland, we expect to grow our rate base to approximately CAD 5.5 billion by the end of 2021.

Now on to the highlights within the gas segment, which continues to drive the significant opportunities we see in front of us through 2021. I'm going to touch on just a few. The Central Penn project is a new 185 mile pipeline through Pennsylvania which came online early in October.

We own an indirect 21% of Central Penn, which has the capacity to transport and deliver up to 1.7 BCF a day of natural gas from the northeast Marcellus producing region to markets in the Mid-Atlantic and Southeastern regions of the U.S. The project startup was delayed approximately five weeks, primarily due to weather conditions, but is now fully online.

We continue to be excited about our RIPET project, which is the first propane export terminal on Canada's West Coast. We expect to ship 1.2 million tons per year of propane to Asia, and that's equivalent to about 40,000 barrels per day. Construction activity is progressing safely and remains on time and on budget, and members of the operations team are now permanently on site to initiate a smooth transition in Q1 2019.

We expect the facility to begin receiving propane in Q1 2019 with the first ship ready for export early in Q2, which aligns with the propane contract year. Commercial deals to secure the remaining offtake commitments are currently under negotiation and are expected to be completed by the end of 2018.

Due to the significant interest we have seen in the initial 40,000 barrels per day, we expect to have 100% of the propane supply fully contracted before RIPET comes into service. We have deliberately balanced our contracts between commodity exposed and tolling arrangements.

And with this strong support, we are also planning to increase the facility's overall capacity beyond the initial stage of 40,000 barrels a day, and believe the increase can be achieved with minimal capital investment. This will further significantly enhance total cash flow and returns from the project.

As you know, we spent a significant amount of time over the past several years cultivating and nurturing the Japanese market and its counterparties. We have seen this significant investment generate material benefits as we move forward towards COD at RIPET.

Asian propane prices are at a significant premium to pricing received by Canadian producers, which makes RIPET an extremely attractive market. High rail cost to Conway in the Midwest U.S., which itself has a significant discount to Mont Belvieu, coupled with strong demand and higher prices in Asia means that access to export markets, which RIPET provides, can result in significantly better propane netbacks for producers in Western Canada.

During the quarter, we announced the Kelt and Black Swan transactions, both of which really highlight the strength of our integrated value chain as well as efficient use of capital. We are continuing to extend and build out our unique value proposition and integrated gas strategy right in the middle of the Montney.

These projects utilize existing AltaGas infrastructure, providing very strong integrated economics and strengthening our strategic footprint within Northeast BC. As a result of these new projects, the North Pine liquid separation facility is expected to be expanded in 2019. And we have also continued to have additional discussions with other Montney producers who are looking to AltaGas to provide a fully integrated, customer-focused midstream solution, including energy export options which provide increased value for their products.

Now quickly moving on to the results for the third quarter, we had a lot going on in this quarter and have certainly seen a lot of change since we reported Q2 back in July. And as you know, we have almost a full quarter of WGL operating results.

Overall, normalized EBITDA for the quarter came in at CAD 226 million, up CAD 36 million or 19% over last year. As you would expect, the WGL acquisition accounted for much of the increase in year-over-year third quarter EBITDA.

Total normalized EBITDA in the gas segment came in at CAD 65 million, up 27% over last year. The legacy AltaGas gas business itself saw a strong 12% year-over-year growth and contributions from Townsend 2A and North Pine, which commenced commercial operations in the fourth quarter of 2017, also stronger realized frac spreads and volumes and higher revenues at Harmattan due to increased NGL activities there. WGL contributed CAD 8 million to Q3 gas results.

These positive factors were partially offset by reduced ownership at Younger and lower contribution from Petrogas, where we recorded equity earnings of CAD 2 million versus CAD 6 million last year, as the solid underlying operating performance at Petrogas was offset by some unrealized mark-to-market losses on hedging activities.

Moving to the power segment, total normalized EBITDA was up 21% to CAD 128 million in the third quarter. WGL's power business contributed CAD 32 million of that. The legacy AltaGas business benefitted from higher dispatch generation at Blythe due to greater operational and fuel flexibility, and also by about CAD 2 million from a favorable U.S. dollar exchange rate.

Positive results were somewhat offset by CAD 8 million lower EBITDA at Northwest Hydro due to lower river flows caused by colder than normal weather conditions, and CAD 3 million due to the expiry of the Ripon PPA.

Finally, utility segment EBITDA was CAD 32 million in the third quarter of 2018. This is a decrease of CAD 6 million year-over-year. As I noted earlier, the WGL acquisition was a drag on the utilities segment EBITDA by about CAD 7 million due to the timing and normal seasonality of WGL earnings as well as higher leak remediation expenses.

This is also where we saw the greatest impact of U.S. tax reform, which had a CAD 3 million impact on AltaGas's legacy utilities, along with CAD 4 million at WGL's utilities. Positive impacts came from lower operating expenses at several of the utilities, colder weather in Alberta, as well as a favorable CAD 1 million impact from FX.

As David pointed out, the summer is not the most ideal time to close a gas utilities acquisition. However, going forward, we do expect WGL to be a significant contributor to our utilities segment on an annualized basis and in the fourth quarter as we move into the winter heating season.

Normalized funds from operations for the third quarter were CAD 117 million or CAD 0.45 per share, down from last year's CAD 143 million or CAD 0.83 per share. Funds from operations for the third quarter were impacted by the same factors impacting EBITDA. However, higher interest expense associated with the WGL acquisition more than offset the increase in EBITDA in the quarter due to the normal seasonality within the utilities business.

Third quarter dividend income from Petrogas was stable at CAD 4 million, represented by CAD 3 million in preferred dividends and CAD 1 million of common share dividends. Current taxes in Q3 were comparable to the previous year, but deferred GAAP taxes were more favorable due to various nonrecurring expenses.

Normalized net income in the third quarter was a loss of CAD 17 million or CAD 0.07 per share versus a gain of CAD 48 million or CAD 0.28 per share in Q3 2017. Higher EBITDA, as previously discussed, and lower income tax expense was more than offset by higher interest expense and a higher depreciation and amortization expense associated with the WGL acquisition and bridge financing, and higher preferred share dividends.

The effect of having less than full year contribution from WGL in 2018 while having the full transaction costs, including financing, results in this partial year impact. A full year of WGL in 2018 should result in a more balanced impact. Per share metrics were materially impacted by the higher number of outstanding shares from the CAD 2.6 billion of subscription receipts to fund the WGL acquisition.

And now quickly moving on to the funding, we have moved quickly and swiftly since closing the WGL acquisition to complete the CAD 2 billion asset monetization plan and pay down the bridge facility. In the third quarter, we successfully completed the AltaGas Canada IPO, which closed on October 25, 2018.

The total cash proceeds from AltaGas, when including both the IPO proceeds as well as the debt to be repaid, will be about CAD 874 million. And this amount could increase to as much as CAD 910 million if the underwriter's over-allotment option is exercised in full.

The IPO, together with the non-core gas and power asset sales of about CAD 560 million which are expected to close in the fourth quarter, represent the final steps of our initial asset monetization strategy. We exceeded our CAD 2 million [sic -- CAD 2 billion] target, with approximately CAD 2.4 billion raised. With the proceeds from these two transactions, we will reduce the outstanding amount on the bridge facility to approximately $1.2 billion.

Excuse me as I clear my throat a few times here. As I mentioned, going forward we expect the WGL acquisition to benefit from all three segments, and we expect the utility segment to have the greatest contribution on an annualized basis starting in 2019. Based on all the steps discussed, we see utilities representing about 50% to 55% of full year 2019 EBITDA, with gas at approximately 35% and then power at 10% to 15%.

Turning to the outlook for 2018 in total, we're still tracking in a 25% to 30% growth range for 2018 full year EBITDA despite the later closing of the WGL acquisition and a few headwinds including seasonality of WGL earnings, lower generation revenues at Northwest Hydro, the higher WGL utility leak remediation costs, and the delayed in-service date for Central Penn. This guidance also accounts for the impact of the announced and expected asset sales and other financing initiatives.

Quickly running through the individual business segments, gas will continue to benefit from WGL's growing pipeline investments, including Stonewall, which is already in service, and Central Penn, which came on earlier this month. We're also benefitting from the higher frac-exposed extraction volumes of about 10,300 day, with attractive hedges in place for 73% of those volumes in 2018. Townsend 2A and North Pine also contributed to full-year performance.

The power segment will continue to benefit from WGL's growing distributed generation assets and higher power prices in Alberta. Utilities will be driven by the contributions from WGL's growing utility business as we move into the heating season in Q4, as well as higher full year contributions from SEMCO and ENSTAR. This is partially offset by the impact of tax reform which, for the rest of '18 in total, will be CAD 16 million for our legacy U.S. utilities and about CAD 22 million for WGL's utilities.

The increased EBITDA from business operations is expected to be partially offset by asset sales, including the pending sales in non-core gas and power and the close of the AltaGas Canada IPO, which will reduce 2018 EBITDA by about CAD 46 million.

Just as a reminder, with about 60% of our 2018 EBITDA being U.S.-based, here's a quick sensitivity for Q4. For every $0.05 change in the foreign exchange rate, there's a corresponding CAD 11 million impact on Q4 2018 EBITDA, which is only about 1% of our total '18 expected EBITDA.

Given some of these headwinds referred to earlier, we now expect full year normalized FFO in 2018 to grow approximately 10% year-over-year, which is below the previous guidance of 15% to 20%. The 2018 FFO is being impacted by the same factors as EBITDA. But again, however, due to a smaller denominator, the FFO growth as a percentage is more sensitive to these factors we've already discussed.

The net combined capital expenditures are tracking to the high end of our previously stated guidance of CAD 1 billion to CAD 1.3 billion with CAD 675 million spent in the first three quarters of 2018. So guidance for full year 2018 is now CAD 1.2 billion to CAD 1.4 billion. And of that, 45% to 50% of total capital will be spent in the gas business on RIPET, Central Penn, Mountain Valley, and the recent Kelt and Black Swan transactions, with another 45% to 50% in utilities for attractive replacement programs and the start of Marquette Connector. Gas and power maintenance capital for full year 2018 is expected to be CAD 30 million to CAD 35 million.

In summary, due to all the moving parts this quarter and subsequent to quarter-end with the asset sales, it's a bit hard to see the strength of our business. However, this should not overshadow the underlying performance or the opportunity which our business has. We continue to be confident and excited about our asset base and its potential. We've made considerable progress over the past quarter on reshaping and optimizing our operating business through the closing of WGL and our asset monetization strategy, including the successful IPO of AltaGas Canada.

But as we move forward, we will continue looking for ways to further optimize our business and execute on our growth opportunities for the long term benefit of our shareholders. As we finalize our capital and funding plan for 2019 and beyond and complete our normal annual planning process, we'll come back to the market later this quarter with a more fulsome plan and a clearer view of our financial and business outlook.

I'd like to now turn it back to David for his closing remarks.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Thank you, Tim. You will see us, over the coming months, have a very planned and measured approach to funding and capital plans so we effectively deploy capital today to result in long term value creation.

To close, AltaGas has never been better positioned than it is today to benefit from the growth of its asset base and opportunity set. Our investment in our Northeast BC strategy as well as positive developments in LNG have positioned us very well in this basin. RIPET is shaping up to be a homerun for us, and is continuing -- we continue to see upside for producer customers and AltaGas in the integrated value chain we have created.

We are seeing good progress in the Marcellus Basin with our pipeline investments there. Our U.S. utilities are experiencing significant growth. System betterment, population growth, as well as the Marquette Connector, are key drivers for us in the midterm. And we are keeping our capabilities strong in power and adopting a capital light strategy at the moment until the economics of the power business meets our return thresholds.

We look forward to reporting back to you in late November with a fuller picture on our funding framework, more detail on our 2019 capital projects, providing greater detail on the transactions we are seeing both in the gas and U.S. utilities, and update on hiring a new CEO.

Finally, I want to thank the AltaGas employees, who have been working very hard in trying conditions. They've been performing outstandingly, facing ridiculous deadlines and ever-changing conditions. With a balanced funding strategy and a focus on opportunities ahead of us and the dedication of our employees, I am confident about the future plans and growth. Thank you very much.

Adam McKnight

I'd now like to turn the call back over to the operator to facilitate the Q&A session.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions.] And your first question comes from the line of Robert Kwan with RBC Capital Markets.

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

If I can just start with you laid out a number of the goalposts here, but if it's possible refine some of that just when you're looking first on the credit rating and the investment grade side of things. Can you just talk about your desire to stay at BBB, or is BBB minus being considered given that's still an investment grade rating?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Clearly, BBB is our hope and that's what we're working to. It's an -- and those are the plans that we're putting forward. But it's a determination of S&P and bond raters to make that determination. I can't give you any more clarity than that.

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

Is there a comfort level though, obviously it may not be the desired outcome, but to operate at the BBB minus level?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

In the past history, AltaGas has been BBB low with S&P for a number of years and operated quite effectively. But clearly, we prefer BBB mid.

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

Understood.

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

I would just say, Robert, I mean, there's S&P -- we're going to be -- as we've noted a couple times, we will be having further discussions and updates with them here very shortly. They do have different parameters and criteria at different rating levels.

And so we need to go through that with them and fully understand it, and understand how holistically it fits with our overall business plan. And so that's part of the process.

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

Got it. I guess turning to the dividend and on an appropriate payout ratio, I'm just wondering what are the different payout ratio metrics you're looking at. You did mention EPS earlier as well as cash flow. I'm just wondering, are you still looking at FFO, or would you also be looking at deductions from that number around your preferred dividend financing, minority interest distributions, maintenance CapEx, as well as rate-based investment into the units?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

I think I'm going to jump into this one because I think you've got to look at everything. I think you can -- I prefer FFO because I find it a purer number than doing all the adjustments and normalizations. And I think earnings, whatever -- if they are true earnings and not adjusted with current -- some of the current GAAP normalized, are probably the best two.

I think it depends what you think is the appropriate range on those two metrics, but A FFO, U/A FFO are all factors that should be coming into your calculation on range at FFO. So we're quite aware of all those and what happens with changing mix and changing ability to fund dividend.

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

Got it. And I can just finish then on the focusing of capital towards the highest quality projects, are there any projects underway that don't fit that new definition or more stringent definition, from your perspective? And if not, are there any examples of project that you've done in the past few years that you wouldn't be doing going forward if they were in front of you today?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

I don't think it's quite a fair question because of the different cost of capital and different things. But clearly, we've made the decision that where we see power investments going forward are too low for the needed returns. And so we would look at some of those slightly differently, I would think.

But clearly, since Phil and I have stepped in, we've slowed down a number of investments to high grade them to higher returns and reduce some significant capital spend.

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

I'd say, Robert, I think we've very comfortable with the projects -- the key projects we mentioned, the ones in the center of the fairway that we're spending capital on, the critical ones we talk about led by RIPET, but Central Penn and other examples like that, especially the integration aspects around many of those key projects, extremely comfortable with those. It's really where is the marginal dollar for, and that's where the criteria comes up.

Operator

Your next question comes from the line of Rob Hope with Scotiabank.

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

Turning over to asset sales, you did highlight that the Northwest Hydro could be monetized. Do you have a target ownership level there? And if you go down below 50% or don't control that asset, would you be subject to any longer review processes?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

We haven't set a target. I think we, over the last months, have been working through to understand. And I think we have quite a bit of flexibility in terms of what ownership we'll end up with with Northwest Hydro.

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

All right. And then just moving over to the timing of the asset sales, are you looking for earlier close assets, or could we be more in the back half of 2019?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

with respect to the over CAD 1.5 billion, I would be significantly disappointed if those were not substantially done by the end of Q1 '19.

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

All right. And then just to wrap up, just in terms of your conversations with S&P, are they more focused on FFO to debt? And given the kind of build out of your program in '19, are you seeing some potential to realize those targets in 2020, or is it real -- a focus to hit them in 2019?

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

I think 2019 is the natural year simply because it's their first full year. So it's a very -- it's a much cleaner year, certainly, than the Q3 that we just described.

And so, that is the timeframe, the near term timeframe for those key metrics. But make no mistake. I mean, we're looking at the foreseeable future, and we certainly have discussions with S&P and everybody else over a forecast planning period that goes beyond 2019 as well.

Operator

Your next question comes from the line of Ben Pham, BMO.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

I wanted to go over a bit about your comments around the transformation of your business the last 18 months and just some commentary on the dividend and where you thought it was going to go before and where it could go going forward. And so when you think about that business plan 18 months ago going into WGL, I know, David, you mentioned the financing -- or capital markets have effectively closed for AltaGas. But is there something else there that you may have misjudged along the way? Because it's -- the impact on your stock's been quite significant that -- is it really the financing market that's changed for you the last 18 months?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

I think clearly if you look at where the financing market was almost two years ago now, when we were contemplating this transaction, to today it's quite different, primarily in terms of models and expectations on the market and access to equity. And we've been unable to really adapt over that period of time if we weren't locked up in a large regulatory process. And part of that was in bridge financing. It prevented us from doing some things we should have done -- from my perspective would have done earlier if we were free to do those things.

So we're playing catch up, quite frankly. If you look at -- go back to years ago, from an investment thesis, people were looking for growth. People were supportive of growth. Today people want -- from a shareholder's perspective, are looking for totally self-funding and growth within that self-funding model, and which I think is prudent, quite frankly.

But that changed the dynamic dramatically. And if we look at our cost of capital, we see the cheapest cost of capital right now is asset sales. And we're pursuing that because we think it's the best way to long term enhance shareholder value.

So we hadn't contemplated -- we had contemplated CAD 2 billion, but we're announcing almost CAD 4 billion now with the CAD 2.4 billion already done and another in excess of CAD 500 million. That was not contemplated going into the plan. And as you sell assets, you unfortunately have to lose EBITDA; you sell assets but generate cash flow. And so that's quite a different model and assumption that we went into, but the cost of capital is better for our shareholders to sell assets at this point than to raise additional equity.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

Okay. So was the prior plan then, there was -- on top of the DRIP, which is more dilutive, there was the actual plan to issue equity, external equity, in that three to four year plan?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

There was a more growth oriented forecast on -- rather than as far as we're going on asset sales. So I think that's a major change. And some of that would have been equity in future years, that we're basically looking to -- for a self-funding model going forward. So that's quite a dramatic change in assumptions.

Benjamin Pham - BMO Capital Markets Equity Research - Analyst

Okay. And then my last question is, if you think about the asset sales of CAD 1.5 billion, you've turned off the premium DRIP so you're probably going to save CAD 200 million a year, so we'll call it CAD 600 million in three years. So does that difference, does that replace a lot of the debt that might have been in your prior plan or your thinking maybe a few months ago?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

No, the premium DRIP, from our perspective, is we just don't like the dilution it does to our existing shareholders. And we think we want to deliver growing per share metrics, and so we think it's a prudent thing to -- what we're hearing from our shareholders is equity is precious, and we want to as a company to treat it that way.

Operator

Your next question comes from the line of Linda Ezergailis with TD Securities.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

I'm wondering if you could help us understand how your outlook for the accretion of WGL has shifted. In addition to U.S. tax reform, I'm wondering specifically how the cost of capital has changed that. And I'm also wondering if your outlook from an operational cash flow and EBITDA contribution has declined beyond 2018 as well. And specifically, I'm wondering if those higher leak remediation costs were kind of more one-time nature in 2018 or continue down the road, and if there's any other factors that might have contributed to a decline.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

That's a big question, lots of different things. I guess -- I'll say one thing and then Tim will correct me. The biggest change that we saw in our forecast on FFO was just the performance of Northwest Hydro in the record drought.

And as I think you will remember in the news, the Telegraph Creek fire, that the Tahltan suffered through a total evacuation of one of the largest forest fires in BC's history. It was right in the watershed -- or right next to the watershed of Northwest Hydro. I think that's the biggest change for the -- change in guidance in FFO. And in Canada, we're nontaxable, so EBITDA and FFO march step.

But Tim can maybe answer some additional questions.

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

I mean, I think we've obviously talked about 2019, as I said earlier, as being the first full year and the year that we start to assess and benchmark the WGL transaction on a pro forma basis. We still believe it's very accretive to us in 2019 versus what we would have been on a standalone basis, and that's the test that we've been using since day one.

Obviously, there has been changes, as David's alluded to and I've alluded to in our prepared comments, around funding mix. When you sell certain assets with cash flow associated with those and issue less shares, that changes the metrics. At least on a per share basis it does.

But I'd emphasize that again, WGL, our expectations are that it's performing in line with what we originally expected, and a quarter doesn't make a year nor does it make a lifetime in terms of the long term nature of those assets within WGL. And so we think 2019's going to be a very strong additive year with WGL in tow, and so I don't think that changes our perspective on accretion, Linda.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

That's helpful. And the 2019 business mix that you provided, similar to 2018 guidance which baked in asset sales, is that business mix after asset sales?

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

Yes, it is. So that's as best as we can do right now as we look at everything we've talked about, I mean, and we're not leaving anything out here because otherwise it wouldn't be a truly representative business mix.

So when I said 50% to 55% utilities, 35% gas approximately, and 10% to 15% power, and that's EBITDA that I'm talking about, in 2019 that's everything baked in. The asset sales that we are closing this quarter, the asset sales that we're undertaking and have underway, as David alluded, to CAD 1.5 billion to CAD 2 billion, any other assumptions -- base assumptions on the financial or operational side, that's fully accounted for.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Thank you. And just if you can maybe help us further understand the outlook for cash flows, would it be possible to get an update on your cash tax outlook, your maintenance cost outlook, and maybe what the timing of cash flows, and over what period might be for the various regulatory commitments that you booked, that one-time merger commitment cost of CAD 182 million?

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

Yes.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

We'll work on that.

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

We can circle with you on some of those specifics. Our cash taxes haven't changed a whole lot. I mean, our effective tax rate's in the order of 20%, 21%. And we're not cash taxable in Canada and haven't been for some period of time, so no change there.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

And similarly, your maintenance CapEx outlook isn't changed that much?

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

No, it hasn't because, again, my guidance was CAD 30 million to CAD 35 million for this year. And going forward, I mean, as you add new assets that come on but you subtract certain assets as part of asset sales, that's really not shifting a whole lot. That CAD 30 million to CAD 35 million on maintenance capital is gas and power.

In terms of depreciation, which is maybe a proxy for utilities maintenance, we're -- AltaGas's U.S. utilities are -- sorry, AltaGas total utilities this year are probably about CAD 75 million of deprecation. That'll decline to about CAD 50 million next year with the IPO. And on the WGL side, on a full year basis their depreciation's probably in the order of CAD 175 million.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

Helpful context. And can -- the merger commitment costs, do those flow through the cash flows from operations? And what's the cadence of that?

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

Yes, they do, and so they would have been reflected. And as you know, we report normal GAAP metrics as well as normalized metrics. So for Q3, we would have -- they would have flowed through. There would have been transactional related costs in the order of -- this is as reported in our MD&A, CAD 35 million merger related transaction costs this quarter of about CAD 182 million, so just a little over CAD 200 million total. And those would have been normalized out of those normalized results.

Linda Ezergailis - TD Securities Equity Research - Research Analyst

So that was cash out the door of CAD 182 million for the merger commitment costs?

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

Some of that's related to change in working capital, but I think I'll have to just circle with you to give you the full breakdown of that. We do have that readily available, so we'll circle with you on that, Linda.

Operator

Your next question comes from the line of Robert Catellier with CIBC Capital Markets.

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

Just a couple questions here to follow up on the asset sales and then the dividend. What informs the CAD 1.5 billion to CAD 2 billion target of additional asset sales? Why that level and what exact financial objectives are you trying to accomplish versus a lesser amount?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Well, we look at RIPET coming on next year, the capital spend for that and a number of projects. And we're looking at how do we best balance our growth in capital commitments, ensuring an investment grade credit rating and setting ourselves up for 2020 and beyond growth. So that's how we determined those numbers, and everything's kind of circular and linked. But we felt that that was a prudent number.

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

Right. So it's a big future capital commitment, I suspect, or an ongoing capital commitment that -- so we'll have funds.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Well, '19 we talked about was a growth year, and with the U.S. pipelines and with RIPET finalized and the -- Marquette Connector being spent. So all those we have talked about, and so what we felt was that this is a quantum that we thought was very transactable quickly at the scale. And we feel highly confident that we should be north of CAD 1.5 billion by the end of Q1 next year.

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

Okay. And does the suite of assets that could be divested include Mountain Valley and/or Central Penn pipelines?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Not within that CAD 1.5 billion, no.

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

Okay. And then just on the dividend, I guess there's still a lot you need to figure out before you readdress the dividend level, but I'm just curious whether you saw a case for a cut now to help you. I mean, that would be credit positive and might help you with the debt funding. And second, you've cut the premium DRIP, but why not cut the DRIP altogether given where the stock price has been?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

The main reason, I've never been a fan of the premium DRIP. I shouldn't say that. I just think it's a selling pressure on the stock and stock keeps coming into the market. And the timeline makes sense at this meeting to do it for year-end from a contractual perspective. And a lot of our shareholders do like to reinvest in AltaGas, and our DRIP is pretty consistent with the norm within our competitive group, so historically I'd like to give shareholders the opportunity to reinvest in the company if they can.

And so that was the reason. I didn't -- personally, I don't view premium DRIP as an investment back in the company. I view it as a -- more of a trade.

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

And Robert, we can -- as David said, we've had the DRIP for our shareholders over time, very consistent with our peers. And we have the ability to adjust the terms on the DRIP as well. So you can, as you know, sort of modulate the discount percentage and things like that.

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

And in the -- just the first part of the question is why not cut now to help with the -- some of the credit funding that you're looking to do to repay the bridge?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Because we're not ready with all the work that we're doing.

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

You could always address the debt markets once the cut's made, I guess.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

We've got a budget. We're coming back in November. The dividend we're proud of and paying -- sharing that with our utilities. But the tradeoff, and we've been talking to shareholders a lot and listening, is short term yield, long term growth, and trying to balance that with listening to our shareholders. And we're doing -- the goal is to increase our long term value of the company.

So we're taking all that into account and thinking through it -- so that's the process that we're going through, and that's the process the board wants to go through. So the objective at the end is how do we best deliver long term value to our shareholders, grow our earnings per share, grow our FFO per share, and provide a sustainable dividend level. So that's what the board -- will be looking at.

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

And most companies, Robert, at this time of year are in their budget planning processes, right, for the forward year, 2019. And so we're no different. Every year we go through that in November. Last year was no different from a timing perspective.

Really, if you just think about it logically, it makes sense to make sure that we fully go through that process in the most fulsome way because the dividend is part of the overall holistic business plan that we have. So that's a reason why, to complete that.

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

I understand. It's just -- you just can't rush it and you're not ready yet, so that's fine. Thank you.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

I just want to reemphasize that our employee are working very hard on a lot of things. We sold over CAN 2.4 billion in assets, and we want to make sure that we do the right thing and a reasoned thing. And I think it would have been imprudent for us to do anything at this time.

Operator

Your next question comes from the line of Patrick Kenny with National Bank Financial.

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

Yes, I would agree, David, that you guys deserve a lot of credit for the CAD 2.4 billion of asset sales. But I guess I'll just start with a quick comment on how you define the new plan here as quote building shareholder value; And not to kick anyone while they're down by any means, but I think it's probably a good starting point in order to regain the trust of some of your loyal shareholders out there that you just call a spade a spade and define your new plan as being designed to recover shareholder value, just given the stock needs to basically double from current levels just to get back to where it was before the acquisition.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

I totally agree with you.

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

Okay, thank you. In terms of my question, just wondering how you square the comment that you've never had a stronger asset base with the new plan to sell down arguably the highest quality asset across the Canadian energy infrastructure space in the -- of course the Northwest Hydro assets. And most importantly, I guess to circle back on Robert's question, if the rating agencies view the sale of the Hydro as enough of a reason to move down to BBB minus, and let's assume for whatever reason the U.S. hybrid market isn't attractive over the next term, do you have other assets that you'd be willing to sell over and above the CAD 1.5 billion to CAD 2 billion target, or should we assume at that point external equity just to protect the investment grade credit rating?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

No, I think -- well, I guess the -- I hate compound questions because you always go to the last one first. Clearly, our stage three will be optimizing the portfolio. I don't know what that would look like with a new CEO, but clearly focused on the gas and U.S. utilities business.

If you look at Northwest Hydro, I totally agree with you that it's the best asset in the infrastructure portfolio. But as held at AltaGas, the valuation that that asset is getting is discounted heavily compared to other holders of that asset. And it's not, from a -- everything I know from S&P, it's not an asset that is valued as highly as you stated today. So I guess some combination of those versus Canada is an asset that has limited growth in the future other than inflation in terms of cash flow growth compared to other assets.

So that -- with all those things, I believe that it makes sense to monetize 35%. And when I look at cost of capital for equity versus selling assets, I think it's prudent for us to sell additional interest in Northwest Hydro. Personally, if I could own it myself, I'd own the -- be buying that asset all day. But it's not -- it doesn't make sense, I don't think, for AltaGas to hold that asset.

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

And I think you saw the valuation in June, and that was about 27 times EBITDA, and so what we've done is we've achieved the appropriate valuation for that asset. We weren't prepared to sell it for something meaningfully less than that, frankly. And that reflects I think the unique attributes of that asset.

But we then think about it as we've effectively received the value for that. What we're doing is we're taking money and we're reinvesting it. We're reinvesting at one time's rate base into some highly attractive utility assets. We're investing at 6 to 8 times our -- if you think about capital over EBITDA in our integrated gas midstream business.

And so you think about that -- I almost used the word arbitrage, but that difference, I guess, and there's a real ability to create value there. And the Northwest Hydro asset, as I just said, we received appropriate value recognition for it. It is a nice stable asset, not a lot of growth, but a nice stable asset. But we've also significantly enhanced the utilities, which are actually viewed more highly by the agencies than ever Northwest Hydro.

So there is some logic in terms of this thinking. We're just trying to tie it together for you a little bit.

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

Yes. No, we would agree that -- capital allocation standpoint makes sense to sell the Hydro at the June valuation levels. I was just curious about, if the hybrid market didn't come together as you'd expected, if that puts the spotlight back on external equity.

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

And by the way, Pat, I mean, like the hybrid markets -- sorry, I didn't mean to cut you off there. But the hybrid market is still something we're looking at. And we're all keyed up, as you know, with the U.S. dollar-based shelf. But this is also, obviously, the Canadian market too. I mean, the Canadian preferred market is akin to the hybrids. It's treated the same way, and it's a market we value as well going forward. So those are all options.

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

That's great.

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

But at the end of the -- just one -- at the end of the day, we will do, from a costing function, what makes sense on a cost basis and what's the most effective way to have equity, lowest cost.

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

And that's a good lead in to my question and the final question here, David. You mentioned the ability to expand RIPET beyond the initial capacity with minimal capital. Just wondering, at least until you achieve your target credit ratios and have some dry powder, if your view of a new self-funding model over the medium term might include more JVs, more partnership with private equity. How do you think about slowing down growth across the portfolio versus keeping the foot on the gas pedal and bringing in some other funding partners?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

Clearly, for RIPET the capital is not material. We are debating whether we want to do JVs and how fast we want to do that versus just high grading our projects from a critical perspective and focus then maybe '20 -- late '20, '21 on a timeline for more growth. So we haven't determined that, and I think it's partly that it's important that the new CEO has input into that discussion. And it clearly is an option for us, but at this point we're looking at being able to growth, just in a self-funding model with no external funding from a JV.

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

I just want to make one other quick comment, and this is really an extension to what Pat was saying. I just want to be clear that the asset sales, the -- I'm just trying to simplify it. We've announced a bunch of asset sales that are closing here shortly. Some have already closed, like the IPO. We've announced the additional CAD 1.5 billion to CAD 2 billion in the near term.

But again, to be clear, that additional CAD 1.5 billion to CAD 2 billion is not earmarked for the bridge repayment. The bridge repayment has been already whittled down to $1.2 billion, and we still intend to do term debt to complete that bridge repayment. So, I just want to make sure we're not losing sight of one of the steps that we're -- still actively have underway.

Operator

[Operator instructions.] The last question comes from the line of David Galison with Canaccord Genuity.

David Galison - Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities

So I also just want to circle back to the asset sales. And maybe is the sell down of your investment in AltaGas Canada as part of the -- one of the options that you'd be considering as well? I guess on the flipside of that, is their ability to maybe drop assets down into AltaGas Canada?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

We're comfortable where we are with AltaGas Canada. We have no plans at this point to drop any assets down. And that's clearly something for the future. We haven't contemplated that in our current plans at all.

And we're happy at our current level, but if the broker option is exercised, we go down to just under 37%. And that's our go-forward plan. To stay at that level is our current plan.

David Galison - Canaccord Genuity Limited, Research Division - VP of Research of Pipelines, Power and Utilities

And then just touching on the dividend, and we've talked a bit about the targeted payout ratio, when you look at the overall business and when you look at the 2019 and go-forward that -- AltaGas largely being a utility now, does it make sense to look at a target payout ratio similar to utility type peers, or is it -- how could -- how are you thinking about it?

David Wallace Cornhill - AltaGas Ltd. - Founder, Chairman & Interim Co-CEO

I guess when I look at it, there's different appropriate payouts depending on the businesses. If you look at a hydro business can, with very low maintenance, would -- you could justify a long -- a higher payout ratio. I think it's -- pretty standard for most pure midstream or heavily midstream is kind of a mid payout ratio. And utilities have a lower payout ratio because of their need to invest to maintain the rate base to maintain earnings.

So I think we've become a -- you put those all together to determine what's the appropriate ratio for AltaGas. And if the business mix changes, I think the long term payout target should change appropriately to reflect the business that we're in. I think in 2017 our largest segment from an EBITDA perspective was power, followed by utilities, followed by gas. And in '19, Tim was saying our largest will be utilities, 50% to 55%, gas at around 35%, and power the smallest at about 15%.

So we've dramatically reshaped the company over the -- over this period of time. So I think the dividend payout would make sense to reflect the change in the business.

Operator

There are no further question at the time. I'll turn the conference back to Adam McKnight for closing remarks.

Adam McKnight

Okay, thanks. We've covered a lot of material this morning, so as a reminder, the Investor Relations team will be available after the call for any follow up questions that you might have. I'd also like to thank everyone once again for joining us this morning and for your interest in AltaGas. That concludes our call, and have a great day.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.