FINAL TRANSCRIPT

AltaGas Limited

Fourth Quarter and Full Year 2022 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the AltaGas Fourth Quarter and Full Year 2022 Financial Results Conference Call.

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, Investor Relations. Please go ahead, Mr. McKnight.

Adam McKnight — Director, Investor Relations, AltaGas Limited

Thanks, Michelle, and good morning, everyone. Thanks for joining us for the AltaGas Fourth Quarter and Full Year 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 business, and Blue Jenkins, Executive Vice President and President of our Utilities business, as well as Jon Morrison, Senior Vice President, Investor Relations and Corporate Development.

We'll proceed on the basis that everyone has taken the opportunity to review the press release and the fourth 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 full year results and highlights some of the key year-over-year variances and non-recurring items that we would assume would be helpful for the market to understand.

As always, today's prepared remarks will be followed by an analyst question-and-answer period. I'll remind everyone that we will be available after the call for any follow-up questions or detailed modeling questions that you might have.

As for the structure of the call, we'll start with Randy Crawford providing some comments on the financial performance and progress on our strategic priorities, followed by James Harbilas providing a more detailed walk-through of our fourth quarter financial results, our near-term outlook, and 2023 guidance, and then we'll leave plenty of time at the end for some Q&A.

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

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

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Thank you, Adam, and good morning, everyone.

Once again, 2022 was a strong year for AltaGas as we achieved several significant milestones across our platform. I am proud of the strong financial and operational performance that we delivered over the course of the year. Our operating results build upon a strong foundation of growth that we delivered the past three years and is a testament to our diversified model that continues to demonstrate strong advantages through market cycles and operating environments. The AltaGas business performed exceptionally well in 2022, despite some challenges and volatility in Asian to North American butane spreads and other factors during the second half of 2022.

Our 2022 financial results were within the upper half of our guidance ranges with normalized EPS growth of 10% year-over-year and normalized EBITDA growth of 5%. Our Utilities business achieved a U.S. 18% year-over-year EBITDA growth through the ongoing capital investments to core infrastructure on behalf of customers and the addition of new meters through new customer connects and strong asset optimization activity.

Our average utilities rate base increased to $5.2 billion through our continued investment in our network that is focused on improving system safety and reliability while also reducing emissions to deliver better environmental outcomes. We continued to benefit from the population growth with approximately 17,000 new customer connects added in the year across our network.

Also in our Utilities segment, we have successfully closed the sale of ENSTAR. To our departing colleagues in Alaska, thank you for your many contributions to building a strong utility dedicated to the safe and reliable service you provide to your customers.

In our business, we continued to capitalize on the tremendous opportunity to export LPGs to Asia and to meet the rising demand for responsibly produced LPGs from Canada. We significantly advanced our global export capability with the acquisition of the remaining equity stake in Petrogas and the Ferndale facility. This reaffirmed our position as the leading provider of LPG exports off the West Coast. We were able to fund the transaction with recycled capital using the funds that we received from the sale of the non-operating interest in the Aitken Creek facility.

Our export platform, despite experiencing some market and inflationary headwinds in the second and third quarters of 2022, finished the year strong delivering a 14% year-over-year increase in export volumes, delivering over 100,000 barrels a day of propane and butane to markets in Asia. In under four years since RIPET was first commissioned, we have steadily grown our global LPG export capabilities. Combined exports from our two facilities in 2022 now makes up almost 16% of Japan's and 14% of South Korea's total LPG imports.

Integral to the achievement of this volume milestone was the strategic decision to charter VLGCs. Chartering ships has provided cost certainty and significant flexibility associated with the loading of ships, particularly when we decide to utilize the ship for both Ferndale and RIPET. In 2023, we are expecting the previously announced delivery of two new dual fuel VLGCs. The dedicated vessels are projected to reduce shipping costs by over 30% compared to prevailing market rates and reduced pricing volatility. The vessels can carry 15% larger cargoes than the standard VLGC.

As such, the vessels' deployment will extend AltaGas' reach into the Asian market for its products, increase flexibility, drive reduced costs, and provide better environmental outcomes, and position our export platform for future growth. Given the immense logistics of challenges around moving the many barrels from the WCSB to the West Coast and doing so in a safe manner, I'm extremely proud of achieving our volume milestone and the tremendous work our team has put in to reach this accomplishment.

Our financial performance is a testament to our diversified business model, which produces lower risk, high-growth platform that continues to demonstrate resiliency through market cycles and periods of volatility, while providing our shareholders with steady and growing earnings and cash flow. We continued to strengthen our balance sheet and financial flexibility with the closing of the divestiture of the Alaskan Utilities yesterday and we expect to approach our medium term 5x net debt to normalized EBITDA target.

As we look ahead to 2023, we welcome the return of strong demand fundamentals that are being seen in Asia as the economies continue to reopen, and we expect the return of strengthening Asian LPG pricing premiums that were realized in the fourth quarter to continue through 2023 and beyond. We agreed to a new tolling arrangement from an investment grade counterparty in Asia at RIPET, and extended a long-term tolling structure by five years until 2033 at Ferndale, underscoring the market value and credibility of AltaGas export platform, and Canada's reputation for reliable supply.

We look forward to continuing to connect our Canadian and Asian customers through increased long-term tolling arrangements in the years ahead. We are proud of the role AltaGas plays in providing access to affordable and diverse energy sources, both domestically within North America and to global markets. We remain steadfast in our strategy and are firmly committed to leveraging our strategically positioned Utilities and Midstream assets significant organic growth opportunities.

You can expect AltaGas to maintain a high degree of capital and cost discipline as we continue to invest in our Utility networks and make strategic investments of our Midstream and Global Export platform as we continue connecting customers and markets.

With that, 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 Limited

Thank you, Randy, and good morning, everyone.

As Randy mentioned, we are very pleased with the operational financial results that we were able to deliver in 2022 and the strong progress that we made on our strategic priorities.

We achieved normalized EPS of $0.63 in the fourth quarter and $1.89 for the full year, landing us in the upper end of our 2022 guidance range of $1.80 to $1.95, which represented a 10% increase year-over-year. Normalized EBITDA for the fourth quarter came in at $454 million and $1.54 billion for the full year, which was also in the upper half of our 2022 guidance range of $1.5 billion to $1.55 billion. Normalized FFO per share was $1.32 for the fourth quarter and approximately $4.28 for the full year.

Digging into our operating segments for the quarter, the Utility segment again reported strong normalized EBITDA growth of $294 million in the quarter as compared to $238 million in the fourth quarter of 2021, a 24% increase year-over-year. The significant growth was underpinned by strong asset optimization activities at Washington Gas, a stronger U.S. dollar, interim rates associated with the Virginia rate case that came into effect in December, the ongoing investment in our networks through our ARP programs, and colder weather. These positive attributes were partially offset by higher operating and administration costs.

We continued to upgrade our infrastructure in the fourth quarter with the deployment of $272 million of invested capital, including $90 million deployed through our various ARP programs. These programs are focused on improving the safety and reliability of the system, providing long-term operating costs and environmental benefits, and lower risk growth for our shareholders. In 2022, we delivered on our planned Utility network upgrade with $824 million of capital invested in our systems driving rate base growth of approximately 12% year-over-year.

The rate base growth was higher than expected, but it's important to note that it included working gas and storage at a higher weighted average cost of gas, which is also captured in our higher debt balance and elevated working capital as a result of this factor. Given the recent reduction in natural gas prices, this will decrease working capital needs and debt balances as we enter the shoulder season and our gas inventories are replenished at lower prices.

Washington Gas realized normalized EBITDA of $233 million in the quarter, an increase of 27% over last year. This strong year-over-year growth was driven by the strong asset optimization activity, the interim rates at Virginia, ongoing ARP investments, colder weather in D.C., and customer growth. This was partially offset by higher O&M costs. Semko and ENSTAR's combined normalized EBITDA was $67 million in the third quarter, which is up 12% over Q4 of 2021 as colder weather in Michigan and customer growth was only partially offset by higher O&M cost. Finally, Utilities benefited from the strengthening of the USD to Canadian exchange rate in 2022 of approximately $20 million year-over-year in the fourth quarter.

Normalized Midstream EBITDA came in at $163 million compared to $95 million in the fourth quarter of 2021. Higher earnings in the Global Export business was driven by strong volume growth and higher realized propane margins that were partially offset by lower realized butane spreads and higher rail and ocean freight logistics costs. We also realized higher earnings at our extraction facilities, driven by higher frac spreads, higher power revenue at Harmattan as a result of strong power prices and lower operating and administrative expenses. These positive items were partially offset by lower margins in the marketing business, the lost EBITDA associated with the Aitken Creek sale, and a write-down of natural gas inventory and storage.

In the fourth quarter 2022, we exported approximately 97,000 barrels per day of propane and butane to Asia, spread across 16 VLGCs. This included approximately 63,000 barrels per day of propane exported from RIPET and 34,000 barrels per day of butane and propane exported from Ferndale. As we highlighted on our third quarter call, we acted to significantly reduce the amount of butane that we export at Ferndale to our minimum volume commitments due to the softer pricing we experienced in the back half of 2022.

As we look ahead, we continue to have a positive outlook for the structural advantage for LPGs off the West Coast and that Asia will remain the premium global market for LPGs. We continue to actively de-risk the Midstream platform and reduced commodity price exposure and volatility were appropriate. In addition to the new and extended tolling arrangements that Randy highlighted, I would reiterate what I shared on the third quarter earnings call in that we will be disciplined with our hedging practices within Global Exports and are focused on locking in structural pricing differences on a rolling basis for our merchant volumes.

We are approximately 75% hedged for our expected Global Export volumes, inclusive of tolled barrels, for the first three quarters of 2023 at an average SEI (phon) to North American price of approximately $12 per barrel U.S. for our expected propane and butane volumes. This includes strong hedging in the shoulder period of the second and third quarters. We also expect to be active hedging out fourth quarter volumes in the coming months as we complete the annual NGL re-contracting season, which starts on April 1.

Finally, we have the two VLGC time charters that are expected be completed at the end of this year and the start of 2024, which will help reduce and stabilize our shipping costs by approximately 30% on one-third of our export volumes. The corporate and other segment reported a normalized EBITDA loss of $3 million compared to a gain of $1 million in the fourth quarter of 2021. The $4 million year-over-year decrease was driven by higher operating expenses.

Turning to our balance sheet and capital recycling, yesterday we closed the divestiture of our Alaskan Utilities to TriSummit, which will reduce consolidated leverage by approximately CAD1.1 billion, including the transfer of the (inaudible) notes to the buyer and expected cash taxes. As we have previously indicated, sale proceeds will initially be used to reduce debt while providing AltaGas with financial flexibility to advance its strong portfolio of growth opportunities across the Midstream and Utilities platforms over the coming years.

The Alaskan Utilities have been part of AltaGas since 2012 and have a long history of delivering safe, reliable, and affordable energy to their customers, operating with an industry-leading safety record and driving positive outcomes for all their stakeholders. Thank you to the entire deal team on the successful closing and transition to the new owner. We will miss working with our friends in Anchorage, Kenai, Wassila, and Homer and we wish them immense success in the next chapter.

In terms of other developments, earlier this week the Mountain Valley Pipeline received a favorable biological opinion from the U.S. Fish and Wildlife Service. The consortium expects to receive the incremental permits and approvals over the coming months and we'd be positioned to mobilize construction crews in the summer of 2023 and have the pipeline in service by the end of this year. As previously disclosed, we view our investment in the pipeline as a potential divestiture candidate to further deleverage and move towards the Company's long term debt targets.

In February, we reached an agreement with Southern California Edison to extend our contract on the Blythe Facility from January 1, 2024 through to December 31, 2027. We believe that the arrangement reiterates the long-term demand for Blythe to provide stable and affordable power supply and support California's longer term energy needs.

Looking ahead, we continue to focus on delivering durable and growing EPS and FFO per share while lowering leverage ratios and increasing margins of safety within the business over time by moving towards our medium-term goal of reaching 5 times net debt to normalized EBITDA. We are maintaining our 2023 guidance ranges, which include normalized EPS of $1.85 to $2.05 per share and normalized EBITDA of $1.5 billion to $1.6 billion.

With that, I will turn it over to the Operator for the Q&A session.

Q & A

Operator

Thank you, sir.

Your first question comes from Jeremy Tonet of J.P. Morgan. Please go ahead.

Jeremy Tonet — Analyst, J.P. Morgan

Hi. Good morning.

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Hey, good morning, Jeremy.

Jeremy Tonet — Analyst, J.P. Morgan

Just want to touch base on the LPG export a little bit more. Great to see kind of a bit more contracting there. Just wondering if you could I guess expand a bit more on appetite for kind of a longer-term contract there, how you think about duration versus price that you're willing to accept? Do you have targets for duration that you want to hit here over time?

Randy Toone — Executive Vice President and President, Midstream

Hi, Jeremy. It's Randy Toone here.

Obviously, we are trying to get more long-term tolling and our goal is to get 10 to 15 years out of our tolling program. We have to look at what customers have taken kind rates out of the fort. They usually don't have that much taken kind rates or that long. Those are usually three to five years but through our North Pine facilities or Harmattan, those are longer term and those are what we're focusing on.

Jeremy Tonet — Analyst, J.P. Morgan

Got it. That's helpful. Thanks.

Then Randy, I want to kind of pivot towards the LDCs in Maryland and D.C. Maryland specifically, it seems like with the new governor there, the environmental policy could be kind of under review and the dialogue on gas has been kind of evolving in the state there. We did see support out of the PSC for gas there with Chairman Stanek, a great article there. Just wondering, I guess, your thoughts for gas in Maryland over time, how you see things evolving, how you think about the risk there?

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Jeremy, hey, this is Randy and thank you for the question. Appreciate it. It's good to talk to you. I'm going to let President of the Utility, Blue Jenkins, address that.

Blue Jenkins — Executive Vice President and President, Utilities

Yes. Hey, Jeremy, it's Blue. Yes, good questions.

We've had a good relationship with the PSC and the legislative bodies in Maryland and we expect that will continue with Governor Moore as we get to know him and work with him. You certainly correctly highlighted he's working his way through the process of updating the mix on the PSC and we're optimistic in the conversations there that they understand the balance between ensuring that they can have safe, reliable supply while the region works through its emerging ecosystem transition, I'll frame it that way.

We certainly see pressure from a macro level, but the conversations we have suggest to us, just as Chairman Stanek put forward, that the individuals who make key decisions understand the balance and the need to get that right over time. We're optimistic that Governor Moore and his new appointments will continue down that balanced approach.

Jeremy Tonet — Analyst, J.P. Morgan

Got it. That's helpful. Thanks.

Then just a last one for me. On Blythe, congratulations getting the deal there. It seems that that would enhance I guess the value of that asset. As we think about further divestitures to reduce leverage, just wondering how you see interest in Blythe or other assets at this point in the path to hitting your leverage target?

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Hey, Jeremy. Good question.

I'm really proud of the team at Blythe and how they continue to just demonstrate the value of that asset going forward. On your more strategic question, I think I'll let James go ahead and address it specifically.

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

Yes. Look, Jeremy, we've always identified Blythe and MVP as assets that we would consider monetizing to move closer to our ultimate debt targets to be below 5x debt EBITDA. On Blythe, obviously, this four-year contract extension re-affirms or confirms the importance of Blythe in terms of California's power needs and providing that at affordable prices. We're not obviously in the process of doing any kind of price discovery on that asset. We're very happy to continue to own it and operate it. Obviously, this gives us some certainty out to 2027.

MVP obviously was the other one, and the biological opinion was an important milestone with respect to that project. In discussions with our Midstream, with our partners at Equitrans, they're pretty optimistic that they're going to get the remaining federal permits that are required to make forward progress on that pipeline and get it complete by the end of 2023. That would be the other monetization candidate that we would consider, especially as we start to get clarity on the in-service date for MVP.

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Jeremy, I'll just add as you know, with respect to MVP, in our judgment, whether it's the end of the year or sometime next year, we believe the pipeline will get built, and it's necessary as you know, and the consumers on the East Coast are certainly going to benefit from that.

Jeremy Tonet — Analyst, J.P. Morgan

The consumers certainly would benefit. Well, thank you both very much. That's been helpful. Thank you.

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Thank you.

Operator

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

Robert Catellier — Analyst, CIBC Capital Markets

Hey. Good morning.

I wonder if you can just elaborate on what you think the Blueberry River First Nation agreement means for your Midstream business, capital projects in particular. In the event that you are successful in securing new capital projects, how do you go about funding those, given the capital requirements of the Utilities segment?

Randy Toone — Executive Vice President and President, Midstream

Hi, Robert, it's Randy Toone.

Yes. We do think the Blueberry First Nation announcement is encouraging for that area. The permits haven't been released for almost a year, but we did see record permits being released here late Q4 and early in Q1, so that is a positive development. What we can see from the agreement, it's about collaboration and industry working together to develop sustainably, and having existing infrastructure is very important. Our existing infrastructure there has some latent capacity in the processing, so we see that as attractive to area producers.

Also, our North Pine Fractionator is full and we see that a near-term expansion is going to occur there. When I look at that expansion, it's a bolt-on expansion, it's very capital efficient, and it should be big dollars.

I'll turn it over to James to talk about where the capital comes from.

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

Thanks, Randy.

Robert, obviously with ENSTAR closing now and the $1.1 billion of de-leveraging, we've created some balance sheet capacity for us and obviously, we can borrow to fund any expansion projects within Midstream and then obviously count on the incremental EBITDA when it comes online to help us with those leverage metrics.

The other item that you touched on is obviously the diversified platform that we operate between Midstream and Utilities. We've made a lot of capital investments within the Utilities through the ARP programs to improve reliability and safety on the system. That allows us to flex capital up and down if we start to see capital needs on the Midstream platform with strong risk adjusted returns.

Those would be the two levers that we would use to be able to fund growth projects that we see on the Midstream side after we've got clear line of sight in terms of the latent capacity that exists there.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. I have a couple of questions on the export business here.

Given the volatility we've seen in the last couple of years, has your appetite for securing some VLGCs increased? You have a portion of your current needs covered with the ships that are coming in at the end of the year, but since you made that decision, the freight seems to have gotten more volatile. Second question related to that, what are you doing to improve the cost profile on the logistics side?

Randy Toone — Executive Vice President and President, Midstream

Hi, Robert. It's Randy Toone.

Yes, so the VLGCs, the time charters, we actually did a time charter through 2022, a one-time charter, and we did see about $50 million worth of cost savings. We do see the value of taking away the price volatility with Baltic freight, but also just having commercial control of the VLGC has been a benefit to us, so we look forward to the two new ships coming at the end of the year. We're always looking for opportunities to do further time charters. We just have to balance that with our current export demand, but we'll look for opportunities to grow that.

On the other logistics piece, we are working with our service provider on rail to help have more efficiency there, reduce our costs. We are looking at one thing that we were hit with in 2022 is the fuel surcharge, so we are looking at taking the volatility of that away with effective hedging and we have hedges in place already for that. We do see some of that volatility not happening in '23.

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Yes. Robert, I'll just add—this is Randy C. I think in a sense, we are seeing some of the logistics costs coming down. As Randy mentioned, we're taking those steps to further mitigate those risks through those long-term leases and the vessels and the shipping cost and also exploring some sharing mechanisms to mitigate some of those rail aspects.

You did ask a question about some de-risking. I want to make a point as you saw in our prepared remarks that and we've continued to move toward an increased tolling and one in particular is our demand pull (phon) that we've talked about. To us, that's a pivotable point, where we've demonstrated the scale and (inaudible) to that platform and where we take the Canadian production, which is in clear view of the Asian market.

We see more of this coming with the volatility in the access to supply, and clearly, a lot of product comes out of Bellevue and has its logistics challenge, in addition to being longer dated in getting to the Asian market. The simplicity of our Canadian model, to go directly off the West Coast to the market in very short order, is extremely compelling to both our producers and the demand market. I think and we expect that de-risking to continue.

Robert Catellier — Analyst, CIBC Capital Markets

Yes. I agree in geopolitics, even though it's further.

Last question for me, I just want a clarification on the Ferndale throughput and marketing agreement. That's different than the tolling agreement, is that correct? In other words, it really sounds like the volume commitment rather than securing both volume and price?

Randy Toone — Executive Vice President and President, Midstream

It's Randy Toone again. No, it's similar to a tolling arrangement. So yes, you can consider a tolling.

Robert Catellier — Analyst, CIBC Capital Markets

Okay. Thank you.

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

You're welcome. Thank you, Robert.

Operator

Your next question will come from Robert Kwan at RBC Capital Markets. Please go ahead.

Robert Kwan — Analyst, RBC Capital Markets

Thanks. Good morning.

If I can start with the export business and just the de-risking. First question is, can you talk about how much of your capacity is under tolling in 2023 versus 2022? Then when you look at the hedge program, you have added a lot of hedges since you released guidance. Hedge rates are a little bit better than guidance as well, but how does that compare to what was embedded in guidance just in terms of the additional hedges you've added?

Randy Toone — Executive Vice President and President, Midstream

Hi, Robert. It's Randy Toone.

For the de-risking, our goal is to get closer to 30% to 40% tolling come April 1, 2023. We are in the middle of recontracting for the New Year. We are pursuing additional tolling, and so we have good line of sight to be close to that 40% tolling by that date. That's our goal to help de-risk the platform. Also, a very, very active hedging program. We are hedging at attractive rates, but I'll turn it over to James to talk about, is that within the guidance range.

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

Yes, Robert, James here.

In terms of when we release guidance and where we see the curve right now on some of the hedges that we put in place, the shoulder seasons have been a little stronger for us relative to guidance, and obviously butane pricing is a little bit stronger for us relative to guidance and that's why we layered on some butane hedges. You'll see that in the table we put in our press release and especially in Q4.

Propane is very much in line with guidance right now but we continue to see that strengthening as the year progresses, especially in the back half and that's when we'll start to layer in some hedges that we expect will be slightly above our assumptions when we put out midpoint guidance.

Robert Kwan — Analyst, RBC Capital Markets

Then James, since I've got you here, what would the similar commentary be on the frac spread side where you've pretty significantly increased hedges as well for '23?

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

Yes. Frac spread is slightly stronger than when we set guidance and slightly stronger on a Canadian dollar equivalent basis, just given the strengthened exchange rate than when we—probably about $0.50 stronger.

Robert Kwan — Analyst, RBC Capital Markets

Got it.

Sorry, Randy, just coming back to your line of sight to getting 40% once you get to the NGL year. Where are you right now? Then where were you for 2022?

Randy Toone — Executive Vice President and President, Midstream

In 2022, we were roughly 20% tolling out of the say 100,000 barrels a day that we exported. I would say that we're more than halfway to our target, but there's a lot of activity that will happen through March while we do some recontracting here.

Robert Kwan — Analyst, RBC Capital Markets

Got it.

Then I guess just overall when we look at guidance, you touched on some of the items here, but what are some other tailwinds and headwinds that you're seeing versus what you had in December? There was a lot of commentary today on higher O&M costs. I'm just wondering how Q4 realized versus what you embedded in guidance for '23 on that specific one as well.

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Yes. Look, I think that with respect to O&M, we'd kind of signaled in Q3 that we were going to take active measures to mitigate O&M, and Randy Toone touch on some of the things that we're looking at with respect to hedging the fuel surcharge. Obviously, Baltic freight has come off a little bit. We're going to be taking delivery of one of the VLGCs that we chartered in the back half of the year and we'll get a small benefit at the end of 2023.

With respect to overall tailwinds and headwinds, Robert, FX was one of the tailwinds that I clearly touched on. It's probably about $0.02 stronger than where we set our budget when we released guidance. We touched on continued strength on the propane and butane side. In terms of headwinds though, we've had a soft and very mild winter to start 2023 at the Utilities and the jurisdictions where we don't enjoy weather normalization, and that's predominantly DC and Michigan. We've also seen asset optimization come off a little bit relative to our expectations to start the year as a result of mild weather.

Those are some of the headwinds that we faced. When you look at those on an overall basis, that's why we feel comfortable confirming the original range at this point.

Robert Kwan — Analyst, RBC Capital Markets

Okay. That's great. Thank you very much.

Randy Crawford — President and Chief Executive Officer, AltaGas Limited

Thank you.

Operator

This concludes the Q&A portion of today's call. I would now like to turn the call back to Mr. McKnight. Please go ahead.

Adam McKnight — Director, Investor Relations, AltaGas Limited

Thanks, Michelle.

Thanks, everyone, once again for joining our call today, and for your interest in AltaGas. That concludes our call this morning, and I hope you enjoy the rest of your day. Let me now disconnect your phone lines.