MANAGEMENT'S REPORT

The Consolidated Financial Statements of AltaGas Ltd. (AltaGas or the Corporation) and other financial information included in this report are the responsibility of Management. The Consolidated Financial Statements have been prepared by Management in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP) and include amounts that are based on Management's best estimates and judgments. It is Management's responsibility to ensure that judgments, estimates and accounting principles and methods used in the preparation of financial information are reasonable, appropriate, and applied consistently.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Corporation (as defined in Rules 13a-15(f) of the Securities Exchange Act and under National Instrument 52-109).

Management has used the framework established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the effectiveness of the Corporation's internal control over financial reporting. Based on this evaluation, Management, including the CEO and CFO, has concluded that the Corporation's internal control over financial reporting is effective as at December 31, 2020.

In accordance with the provisions under National Instrument 52-109, and consistent with SEC-related guidance, the scope of the evaluation does not include Internal Control over Financial Reporting (ICFR) related to Petrogas Energy Corp. (Petrogas), which was acquired on December 15, 2020. As such, the controls, policies, and procedures related to the Petrogas Acquisition were excluded from management's evaluation of the effectiveness of AltaGas' ICFR as at December 31, 2020. Summary financial information of Petrogas included in the audited Consolidated Financial Statements as at and for the year ended December 31, 2020, includes total assets of approximately $2.6 billion and revenues of approximately $143 million.

Internal control over financial reporting may not prevent all misstatements due to its inherent limitations. In addition, the evaluation of internal control was made as of a specific date and continued effectiveness in future periods is subject to the risk that controls may become inadequate.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board is assisted in carrying out its responsibilities principally through its Audit Committee which is composed of independent non-management directors. The Audit Committee meets with Management regularly and meets independently with internal and external auditors and as a group to review any significant accounting, internal controls, and auditing matters in accordance with the terms of the Charter of the Audit Committee, which is set out in the Annual Information Form.

The shareholders have appointed Ernst & Young LLP as independent external auditors to express an opinion as to whether the Consolidated Financial Statements present fairly, in all material respects, the Corporation’s consolidated financial position, results of operations, and cash flows in accordance with U.S. GAAP. Ernst & Young LLP is not required under securities law to express an opinion as to the effectiveness of the Corporation's internal control over financial reporting. The report of Ernst & Young LLP outlines the scope of its examination and its opinion on the Consolidated Financial Statements.

(signed) "Randall Crawford"

RANDALL CRAWFORD
President and
Chief Executive Officer of
AltaGas Ltd.

(signed) "James Harbilas"

JAMES HARBILAS
Executive Vice President and
Chief Financial Officer of
AltaGas Ltd.

February 25, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of AltaGas Ltd.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AltaGas Ltd. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of income, comprehensive income (loss), equity and cash flows for each of the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AltaGas Ltd as at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years then ended, in conformity with United States generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which it relates.

Fair Value Measurement of Level 3 Derivatives

Description of the Matter

As described in Note 23 to the financial statements, AltaGas Ltd. enters into commodity contracts that qualify as derivative instruments and are accounted for under ASC Topic 815, Derivatives and Hedging. The fair value measurements of certain of these contracts are considered Level 3 under the fair value hierarchy as they are determined using significant unobservable inputs. As of December 31, 2020, derivative assets of $69 million and derivative liabilities of $162 million were recorded based on Level 3 fair value measurements.

Auditing the fair value measurement of Level 3 derivative instruments was complex given the judgmental nature of the assumptions used as inputs into the valuation models. In particular, the valuation of Level 3 derivative instruments is sensitive to significant unobservable inputs used by the Company such as the assumed natural gas basis prices and implied volatilities of natural gas prices. These unobservable assumptions could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

To test the valuation of Level 3 derivative instruments, our audit procedures included, among others, evaluating the valuation methodologies used by the Company and testing significant inputs, assumptions and the mathematical accuracy of the calculations. In certain instances, with involvement of our valuation specialists, we independently determined the significant unobservable assumptions described above, calculated the resulting fair values and compared them to the Company's estimates. For a sample of instruments, we obtained forward prices from independent sources, including broker quotes, evaluated the Company's assumptions related to their forward curves and obtained external confirmation of key contract terms from counterparties. We also performed sensitivity analyses using independent sources of market data to evaluate the change in fair value of Level 3 derivative instruments that would result from changes in underlying assumptions.

Acquisition of Additional Interest in Petrogas Energy Corp. ("Petrogas")

Description of the Matter

On December 15, 2020, the Group acquired an additional 37% equity interest in Petrogas for a total consideration of approximately $715 million as noted in Note 3 of the consolidated financial statements. The Group now owns a controlling interest in Petrogas of approximately 74%. Business combinations that are achieved in stages are accounted for using the acquisition method as per ASC 805 - *Business Combinations*. The purchase price allocation is preliminary and reflects management's best estimate of the fair value of Petrogas' assets and liabilities based on the analysis of information obtained to date.

Auditing the business combination was complex given the significant degree of estimation uncertainty that is inherent in the preliminary nature of the purchase price allocation. Additionally, management was required to exercise significant judgment when determining their best estimate of the fair value of the previously held equity interest, the identified assets and labilities of Petrogas, and the non-controlling interest attributed to the minority shareholder. These valuations are sensitive to future estimated cash flows and discount rates.

How We Addressed the Matter in Our Audit

To test the Group's preliminary purchase price allocation, we performed the following procedures, among others: Read the applicable agreements to obtain an understanding of the key terms and conditions of the acquired additional interest to identify the necessary accounting considerations; Assessed the competency, objectivity, and independence of management's external valuation specialists; Involved our valuation specialists to assess the valuation methodology applied with respect to intangibles, non-controlling interest, previously held interest, and goodwill. They also assessed management's approach to quantifying the preliminary discount rates utilised by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums; Assessed the appropriateness of the preliminary future estimated cash flows by comparing management's underlying assumptions to historical Petrogas data and the respective contractual terms and conditions; Involved our capital equipment specialists to review selected third-party appraisals to assess the appropriateness of management's best estimate of the fair value of property, plant, and equipment; and evaluated the adequacy of the related disclosure included in Note 3 of the accompanying consolidated financial statements

Regulatory Accounting

Description of the Matter

As discussed in Note 21 to the financial statements, AltaGas Ltd. accounts for its regulated operations in accordance with Accounting Standards Codification Topic 980, Regulated Operations. As such, the Company defers certain costs as regulatory assets and records them as expenses on its statements of operations as it collects the revenue designed to recover these costs through customers' rates. The Company also records regulatory liabilities for gains previously realized or for amounts previously collected from customers for expenses expected to be incurred in the future. As of December 31, 2020, the Company recorded $490 million of regulatory assets and $1,471 million of regulatory liabilities.

Auditing the Company's regulatory assets and liabilities was complex due to significant judgments made by management to support its assertions about the probability of both the recovery of regulatory assets and the refund of regulatory liabilities. In particular, there was subjectivity involved in assessing the impact of current and future regulatory orders on events that have occurred as of December 31, 2020 and judgment required to evaluate the relevance and reliability of audit evidence to support the probability of recovery in future rates of incurred costs or refunds to customers. These assumptions have a significant effect on the recorded amounts of regulatory assets and liabilities, operating revenues and expenses, and related disclosures.

How We Addressed the Matter in Our Audit

We performed audit procedures that included, among others, evaluating the reasonableness of the Company's assessment of the probability of the recovery of the regulatory assets and the refund of regulatory liabilities. For example, we evaluated the Company's correspondence with the regulatory commissions, status of regulatory proceedings, past practices, and recent rate orders issued to other regulated entities in the same jurisdictions. In addition, we evaluated the Company's related disclosures.

We have served as AltaGas Ltd. auditor since 1997.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
February 25, 2021

CONSOLIDATED BALANCE SHEETS

As at December 31		2020		2019
ASSETS				
Current assets				
Cash and cash equivalents *(note 31)*	**$**	**32**	$	57
Accounts receivable *(net of credit losses of $41 million) (notes 10 and 23)*		**1,444**		1,222
Inventory *(note 7)*		**636**		506
Restricted cash holdings from customers *(note 31)*		**3**		4
Regulatory assets *(note 21)*		**46**		13
Risk management assets *(note 23)*		**98**		87
Prepaid expenses and other current assets *(notes 28 and 31)*		**234**		280
Assets held for sale *(note 5)*		**4**		27
		2,497		2,196
Property, plant and equipment *(note 8)*		**10,888**		10,125
Intangible assets *(note 9)*		**539**		586
Operating right-of-use assets *(note 10)*		**372**		170
Goodwill *(note 11)*		**5,039**		3,942
Regulatory assets *(note 21)*		**444**		487
Risk management assets *(note 23)*		**47**		39
Restricted cash holdings from customers *(note 31)*		**2**		4
Prepaid post-retirement benefits *(note 28)*		**572**		487
Long-term investments and other assets *(net of credit losses of $3 million) (notes 12, 28, and 31)*		**245**		297
Investments accounted for by the equity method *(note 14)*		**887**		1,462
	$	**21,532**	$	19,795
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities *(notes 17, 18, 23, and 28)*	**$**	**1,561**	$	1,325
Dividends payable *(note 23)*		**22**		22
Short-term debt *(notes 15 and 23)*		**256**		460
Current portion of long-term debt *(notes 16 and 23)*		**360**		923
Customer deposits		**73**		76
Regulatory liabilities *(note 21)*		**90**		146
Risk management liabilities *(note 23)*		**111**		125
Operating lease liabilities *(note 10)*		**95**		27
Other current liabilities *(note 23)*		**38**		17
Liabilities associated with assets held for sale *(note 5)*		**1**		4
		2,607		3,125
Long-term debt *(notes 16 and 23)*		**7,626**		5,928
Asset retirement obligations *(note 17)*		**379**		362
Unamortized investment tax credits *(note 20)*		**3**		4
Deferred income taxes *(note 20)*		**1,118**		959
Regulatory liabilities *(note 21)*		**1,381**		1,383
Risk management liabilities *(note 23)*		**145**		167
Operating lease liabilities *(note 10)*		**304**		153
Other long-term liabilities *(notes 19 and 23)*		**153**		102
Future employee obligations *(note 28)*		**155**		243
	$	**13,871**	$	12,426

As at December 31		2020		2019
Shareholders' equity				
Common shares, no par values, unlimited shares authorized; 2020 - 279.5 million and 2019 - 279.1 million issued and outstanding *(note 25)*	**$**	**6,723**	$	6,719
Preferred shares *(note 25)*		**1,077**		1,277
Contributed surplus		**383**		377
Accumulated deficit		**(1,192)**		(1,403)
Accumulated other comprehensive income (AOCI) *(note 22)*		**50**		245
Total shareholders' equity		**7,041**		7,215
Non-controlling interests		**620**		154
Total equity	**$**	**7,661**	$	7,369
	$	**21,532**	$	19,795

Business acquisition (note 3)
Variable interest entities (note 13)
Commitments, guarantees and contingencies (note 29)
Related party transactions (note 30)
Segmented information (note 32)
Subsequent events (note 33)

See accompanying notes to the Consolidated Financial Statements.

Approved by the Board of Directors of AltaGas Ltd.

(signed) "Randall Crawford"

RANDALL CRAWFORD

Director

(signed) "Robert B. Hodgins"

ROBERT B. HODGINS

Director

CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31		2020		2019
REVENUE *(note 24)*	**$**	**5,587**	$	5,495
EXPENSES				
Cost of sales, exclusive of items shown separately		**3,178**		3,227
Operating and administrative		**1,267**		1,299
Accretion expenses *(note 17)*		**5**		5
Depreciation and amortization *(notes 8 and 9)*		**414**		438
Provisions on assets *(note 6)*		**109**		416
		4,973		5,385
Income from equity investments *(note 14)*		**49**		141
Other income *(note 27)*		**306**		908
Foreign exchange gains (losses)		**4**		(1)
Interest expense		**(274)**		(346)
Income before income taxes		**699**		812
Income tax expense (recovery) *(note 20)*				
Current		**1**		63
Deferred		**126**		(91)
Net income after taxes		**572**		840
Net income applicable to non-controlling interests		**20**		7
Net income applicable to controlling interests		**552**		833
Preferred share dividends		**(66)**		(68)
Gain on redemption of preferred shares *(note 25)*		**—**		4
Net income applicable to common shares	**$**	**486**	$	769
Net income per common share *(note 26)*				
Basic	**$**	**1.74**	$	2.78
Diluted	**$**	**1.74**	$	2.77
Weighted average number of common shares outstanding (millions) *(note 26)*				
Basic		**279.4**		276.9
Diluted		**279.7**		277.4

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Year Ended December 31		2020		2019
Net income after taxes	**$**	**572**	$	840
Other comprehensive income (loss), net of taxes				
Loss on foreign currency translation		**(175)**		(406)
Unrealized gain (loss) on net investment hedge *(note 23)*		**(9)**		60
Actuarial gain (loss) on pension plans and post-retirement benefit (PRB) plans *(note 28)*		**(8)**		12
Reclassification of actuarial gains and prior service credits on defined benefit (DB) and post-retirement benefit plans (PRB) to net income *(note 28)*		**2**		1
Other comprehensive loss from equity investees		**(5)**		(1)
Total other comprehensive loss (OCI), net of taxes *(note 22)*		**(195)**		(334)
Comprehensive income attributable to controlling interests and non-controlling interests, net of taxes	**$**	**377**	$	506
Comprehensive income attributable to:				
Non-controlling interests	**$**	**20**	$	7
Controlling interests		**357**		499
	$	**377**	$	506

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EQUITY

Year Ended December 31		2020		2019
Common shares *(note 25)*				
Balance, beginning of year	**$**	**6,719**	$	6,654
Shares issued for cash on exercise of options		**1**		1
Shares issued under DRIP [(1)]		**6**		68
Deferred taxes on share issuance costs		**(3)**		(4)
Balance, end of year	**$**	**6,723**	$	6,719
Preferred shares *(note 25)*				
Balance, beginning of year	**$**	**1,277**	$	1,319
Redemption of preferred shares		**(200)**		(41)
Deferred taxes on share issuance costs		**—**		(1)
Balance, end of year	**$**	**1,077**	$	1,277
Contributed surplus				
Balance, beginning of year	**$**	**377**	$	373
Share options expense		**6**		4
Balance, end of year	**$**	**383**	$	377
Accumulated deficit				
Balance, beginning of year	**$**	**(1,403)**	$	(1,905)
Net income applicable to controlling interests		**552**		833
Common share dividends		**(268)**		(267)
Preferred share dividends		**(66)**		(68)
Gain on redemption of preferred shares		**—**		4
Adoption of ASU No. 2016-13 *(notes 2 and 23)*		**(7)**		—
Balance, end of year	**$**	**(1,192)**	$	(1,403)
AOCI *(note 22)*				
Balance, beginning of year	**$**	**245**	$	579
Other comprehensive loss		**(195)**		(334)
Balance, end of year	**$**	**50**	$	245
Total shareholders' equity	**$**	**7,041**	$	7,215
Non-controlling interests				
Balance, beginning of year	**$**	**154**	$	620
Net income applicable to non-controlling interests		**20**		7
Adjustment on disposition of assets		**—**		(508)
Contributions from non-controlling interests to subsidiaries		**7**		48
Distributions by subsidiaries to non-controlling interests		**(28)**		(13)
Acquisition of non-controlling interests through Petrogas Acquisition *(note 3)*		**467**		—
Balance, end of year	**$**	**620**	$	154
Total equity	**$**	**7,661**	$	7,369

(1) Premium Dividend™, Dividend Reinvestment and Optional Cash Purchase Plan (DRIP). The plan was suspended in December 2019, with the December dividend (paid January 2020) being the last dividend payment eligible for reinvestment by participating shareholders under the DRIP.

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31		2020		2019
Cash from (used by) operations				
Net income after taxes	**$**	**572**	$	840
Items not involving cash:				
Depreciation and amortization *(notes 8 and 9)*		**414**		438
Provisions on assets *(note 6)*		**109**		416
Accretion expenses *(note 17)*		**5**		5
Share-based compensation *(note 25)*		**6**		4
Deferred income tax expense (recovery) *(note 20)*		**126**		(91)
Gains on sale of assets *(notes 4 and 27)*		**(223)**		(876)
Gain on remeasurement of previously held interest in AIJVLP *(note 3)*		**(22)**		—
Income from equity investments *(note 14)*		**(49)**		(141)
Unrealized losses (gains) on risk management contracts *(note 23)*		**(21)**		85
Losses on investments *(note 27)*		**—**		4
Amortization of deferred financing costs		**8**		12
Provision for doubtful accounts		**25**		27
Change in pension and other post-retirement benefits *(note 28)*		**(11)**		8
Other		**15**		9
Asset retirement obligations settled *(note 17)*		**(4)**		(2)
Distributions from equity investments		**26**		110
Changes in operating assets and liabilities *(note 31)*		**(203)**		(232)
	$	**773**	$	616
Investing activities				
Business acquisitions, net of cash acquired *(note 3)*		**(675)**		—
Capital expenditures - property, plant and equipment		**(825)**		(1,296)
Capital expenditures - intangible assets		**(18)**		(38)
Contributions to equity investments		**(72)**		(179)
Change in loan to affiliate		**(75)**		—
Proceeds from disposition of equity investments *(note 14)*		**376**		—
Proceeds from sale of investments in publicly-traded entities		**4**		—
Proceeds from disposition of assets, net of transaction costs *(note 4)*		**74**		3,624
Proceeds from disposition of financing receivable		**—**		73
	$	**(1,211)**	$	2,184
Financing activities				
Net repayment of short-term debt		**(157)**		(701)
Issuance of long-term debt, net of debt issuance costs		**1,962**		889
Repayment of long-term debt		**(1,056)**		(873)
Net borrowing (repayment) under credit facilities		**191**		(1,921)
Dividends - common shares		**(268)**		(266)
Dividends - preferred shares		**(66)**		(68)
Distributions to non-controlling interest		**(28)**		(13)
Contributions from non-controlling interests		**7**		48
Net proceeds from shares issued on exercise of options		**1**		1
Net proceeds from issuance of common shares		**6**		68
Redemption of preferred shares *(note 25)*		**(200)**		(38)
	$	**392**	$	(2,874)
Change in cash, cash equivalents, and restricted cash		**(46)**		(74)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash		**(2)**		(9)
Net change in cash classified within assets held for sale		**—**		4
Cash, cash equivalents, and restricted cash beginning of year		**122**		201
Cash, cash equivalents, and restricted cash end of year *(note 31)*	**$**	**74**	$	122

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts and amounts in footnotes to tables are in millions of Canadian dollars unless otherwise indicated.)

1. Organization and Overview of the Business

The businesses of AltaGas are operated by the Company and a number of its subsidiaries including, without limitation, AltaGas Services (U.S.) Inc., AltaGas Utility Holdings (U.S.) Inc., WGL Holdings, Inc. (WGL), Wrangler 1 LLC, Wrangler SPE LLC, Washington Gas Resources Corporation, WGL Energy Services, Inc. (WGL Energy Services), and SEMCO Holding Corporation; in regard to the Utilities business, Washington Gas Light Company (Washington Gas), Hampshire Gas Company, and SEMCO Energy, Inc. (SEMCO); in regard to the Midstream business, AltaGas Extraction and Transmission Limited Partnership, AltaGas Pipeline Partnership, AltaGas Processing Partnership, AltaGas Northwest Processing Limited Partnership, Harmattan Gas Processing Limited Partnership, Ridley Island LPG Export Limited Partnership, and WGL Midstream Inc. (WGL Midstream); and, in regard to remaining assets in the Corporate/Other segment, AltaGas Power Holdings (U.S.) Inc., WGL Energy Systems, Inc. (WGL Energy Systems), and Blythe Energy Inc. (Blythe). SEMCO conducts its Michigan natural gas distribution business under the name SEMCO Energy Gas Company (SEMCO Gas), its Alaska natural gas distribution business under the name ENSTAR Natural Gas Company (ENSTAR) and its 65 percent interest in an Alaska regulated gas storage utility under the name Cook Inlet Natural Gas Storage Alaska LLC (CINGSA). Petrogas Energy Corporation (Petrogas) was also added as a subsidiary of AltaGas upon the close of the acquisition on December 15, 2020.

AltaGas, a Canadian corporation, is a leading North American energy infrastructure company that connects natural gas liquids (NGLs) and natural gas to domestic and global markets. The Corporation's long-term strategy is to grow in attractive areas across its Utilities and Midstream business segments seeking optimal capital deployment. In the Midstream business, the Corporation is focused on optimizing the full value chain of energy exports by providing producers with solutions, including global market access off the West Coast of North America via the Corporation's footprint in the Montney region. In the Utilities business, the Corporation seeks to grow through rate base investment and the use of accelerated rate recovery programs, while providing effective and cost-efficient service for customers.

In 2020, AltaGas revised its reportable segments to align with the structure of its business following asset sales completed as part of its 2019 asset monetization program. As a result of these changes, AltaGas has refocused on its core Utilities and Midstream segments. Consistent with Management's strategic view of the business and the basis on which it assesses performance and allocates resources, beginning in 2020, AltaGas has two operating segments: Utilities (which now includes the WGL retail marketing business) and Midstream. These operating segments have not been aggregated in the determination of AltaGas' reportable segments. All other assets are included in the Corporate/Other segment. AltaGas' operating segments include the following:

- Utilities, which serves approximately 1.7 million customers with a rate base of approximately US$4.3 billion through ownership of regulated natural gas distribution utilities across five jurisdictions in the United States and two regulated natural gas storage utilities in the United States, delivering affordable natural gas to homes and businesses. The Utilities business also includes storage facilities and contracts for interstate natural gas transportation and storage services, as well as the affiliated retail energy marketing business, which serves approximately 0.5 million customers; and
- Midstream, which includes a 70 percent interest in the Ridley Island Propane Export Terminal (RIPET) and an approximate 74 percent interest in the Ferndale terminal, allowing AltaGas to leverage its assets along the energy value chain in Western Canada and the Western United States including natural gas gathering and processing, NGL extraction and fractionation, and natural gas and NGL marketing. The Midstream segment also includes transmission, storage, and an interest in a regulated pipeline in the Marcellus/Utica gas formation in the northeastern United States. Upon close of the acquisition of Petrogas, the Midstream business also includes a 74 percent interest in Petrogas' other operations, which include LPG exports and distribution, domestic terminals, wellsite fluids and fuels, and trucking and liquids handling.

The Corporate/Other segment consists of AltaGas' corporate activities and a small portfolio of remaining power assets, certain of which are pending sale.

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

These Consolidated Financial Statements have been prepared by Management in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

Pursuant to National Instrument 52-107, "Acceptable Accounting Principles and Auditing Standards" (NI 52-107), financial statements of an “SEC issuer” may be prepared in accordance with U.S. GAAP. On January 21, 2020, AltaGas filed a final short form base shelf prospectus in Alberta and a corresponding registration statement on Form F-10 in the United States, by virtue of which AltaGas is now required to file reports under section 15(d) of the *Securities Exchange Act of 1934* with the United States Securities and Exchange Commission. As a result, AltaGas became an SEC issuer at such time and is now entitled to prepare its financial statements in accordance with U.S. GAAP.

PRINCIPLES OF CONSOLIDATION

These Consolidated Financial Statements of AltaGas include the accounts of the Corporation, its subsidiaries, variable interest entities (VIEs) for which the Corporation is the primary beneficiary, and its interest in various partnerships and joint ventures where AltaGas has an undivided interest in the assets and liabilities. Investments in unconsolidated companies that AltaGas has significant influence, but not control, over are accounted for using the equity method.

Hypothetical Liquidation at Book Value (HLBV) methodology is used for certain equity method investments as well as consolidating equity investments with non-controlling interests when the governing structuring agreement over the equity investment results in different liquidation rights and priorities than what is reflected by the underlying ownership interest percentage. The majority of AltaGas' HLBV investments were sold during 2019.

All intercompany balances and transactions are eliminated on consolidation. Where there is a party with a non-controlling interest in a subsidiary that AltaGas controls, that non-controlling interest is reflected as “non-controlling interests” in the Consolidated Financial Statements. The non-controlling interests in net income of consolidated subsidiaries are shown as an allocation of the consolidated net income and are presented separately in "net income applicable to non-controlling interests".

USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of Consolidated Financial Statements in accordance with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Key areas where Management has made complex or subjective judgments, when matters are inherently uncertain, include but are not limited to: determining the nature and timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations for revenue recognition; depreciation and amortization rates; determination as to whether a contract is or contains a lease; determination of the classification, term, and discount rate for leases; fair value of asset retirement obligations; fair value of property, plant and equipment and goodwill for impairment assessments; fair value of financial instruments; measurement of credit losses; provisions for income taxes; assumptions used to measure employee future benefits; provisions for contingencies; purchase price allocations; and carrying value of regulatory assets and liabilities. Certain estimates are necessary for the regulatory environment in which AltaGas' subsidiaries or affiliates operate, which often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. By their nature, these estimates are subject to measurement uncertainty and may impact the Consolidated Financial Statements of future periods.

SIGNIFICANT ACCOUNTING POLICIES

Rate-Regulated Operations

SEMCO Gas, ENSTAR, Washington Gas, and Hampshire Gas (collectively the Utilities) engage in the delivery, sale, and storage of natural gas. SEMCO Gas and ENSTAR are regulated by the Michigan Public Service Commission (MPSC) and Regulatory Commission of Alaska (RCA), respectively. Washington Gas operates in the District of Columbia, Maryland, and Virginia, and is regulated in those jurisdictions by the Public Service Commission of the District of Columbia (PSC of DC), the Maryland Public Service Commission (PSC of MD), and the Commonwealth of Virginia State Corporation Commission (SCC of VA), respectively. Hampshire is regulated under a cost-of-service tariff by the Federal Energy Regulatory Commission (FERC).

The MPSC, RCA, PSC of DC, PSC of MD, and SCC of VA exercise statutory authority over matters such as tariffs, rates, construction, operations, financing, returns, accounting, and certain contracts with customers. In order to recognize the economic effects of the actions and decisions of the MPSC, RCA, PSC of DC, PSC of MD, and SCC of VA, the timing of recognition of certain assets, liabilities, revenues, and expenses as a result of regulation may differ from that otherwise expected using U.S. GAAP for entities not subject to rate regulation.

Regulatory assets represent future revenues associated with certain costs incurred in the current period or in prior periods that are expected to be recovered from customers in future periods through the rate setting process. Regulatory liabilities represent future reductions or limitations of increases in revenue associated with amounts that are expected to be refunded to customers through the rate setting process.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with original maturities of less than three months.

Restricted Cash Holdings from Customers

Cash deposited, which is restricted and is not available for general use by AltaGas, is separately presented as restricted cash holdings in the Consolidated Balance Sheets. Pursuant to the acquisition of WGL Holdings, Inc. (the WGL Acquisition), rabbi trust funds were funded to satisfy certain Washington Gas executive and outside director retirement benefit plan obligations. The rabbi trust funds are invested in money market funds which are considered cash equivalents. These balances are included in "prepaid expenses and other current assets" and "long-term investments and other assets" in the Consolidated Balance Sheets. Additionally, cash deposited in an escrow fund related to a cost sharing agreement with a third party has been recorded as restricted cash in “accounts receivable" in the Consolidated Balance Sheets. Please refer to Note 29 for more information.

Accounts Receivable

Receivables are recorded net of the allowance for doubtful accounts in the Consolidated Balance Sheets. AltaGas regularly analyzes and evaluates the collectability of the accounts receivable based on a combination of factors. If circumstances related to the collectability change, the allowance for doubtful accounts is further adjusted. Accounts are written off when collection efforts are complete and future recovery is unlikely.

Inventory

Inventory consists of materials, supplies, natural gas, natural gas liquids, crude oil and condensates, processed finished products, renewable energy credits, and emission compliance instruments which are valued at the lower of cost or net realizable value. Cost of inventory is assigned using a weighted average cost formula. In general, commodity costs and variable transportation costs are capitalized as gas in underground storage. Fixed costs, primarily pipeline demand charges and storage charges, are expensed as incurred through the cost of gas.

Property, Plant, and Equipment (PP&E), Depreciation and Amortization

Property, plant, and equipment are carried at cost. The Corporation depreciates the cost of capital assets, net of salvage value, on a straight-line basis over the estimated useful life of the assets, with the exception of rate-regulated utilities assets, for which depreciation is calculated on a straight-line basis or over the contract term of a specific agreement at rates as approved by the regulatory authorities, and a small number of assets acquired as part of the acquisition of Petrogas for which depreciation is calculated using the declining balance method.

The Utilities charge maintenance and repairs directly to operating expense and capitalize betterments and renewal costs. In accordance with regulatory requirements, depreciation expense includes an amount allowed for regulatory purposes to be collected in current rates for future removal and site restoration costs.

Interest costs are capitalized on major additions to property, plant, and equipment until the asset is ready for its intended use. The interest rate used for calculating the interest costs to be capitalized is based on AltaGas' prior quarter actual borrowing long-term interest rate.

The Utilities capitalize an imputed carrying cost on assets during construction as authorized by regulatory authorities and the amount so capitalized is an allowance for funds used during construction (AFUDC). AFUDC is the amount that a rate-regulated enterprise is allowed to recover for its cost of financing assets under construction. Capitalized overhead, administrative expenses, and AFUDC are included in the cost of the related assets and are recovered in rates charged to customers through depreciation expense, as allowed by the regulators.

The range of useful lives for AltaGas' PP&E is as follows:

Utilities assets	4 to 69 years
Midstream assets	3 to 55 years
Corporate/Other assets	3 to 46 years

As required by the regulatory authority, net additions to SEMCO's utility assets are amortized for one half-year in the year in which they are brought into active service. Net additions to WGL's assets are amortized in the month after they are brought into active service.

Generally, when a regulated asset is retired or disposed of, there is no gain or loss recorded in the Consolidated Statements of Income. Any difference between the cost and accumulated depreciation of the asset, net of salvage proceeds, is charged to accumulated depreciation or another regulatory asset or liability account. It is expected that any gain or loss that is charged to accumulated depreciation or another regulatory account will be reflected in future depreciation expense when it is refunded or collected in rates. When a non-regulated asset is retired or disposed of from PP&E, the original cost and related accumulated depreciation and amortization are derecognized and any gain or loss is recorded in the Consolidated Statements of Income.

Intangible Assets

Intangible assets are recorded at cost. Intangible assets which have a finite useful life are amortized on a straight-line basis over their term or estimated useful life. The range of useful lives for intangible assets with a finite life is as follows:

Energy services relationships	5 years
Software	3 to 20 years
Land rights	5 to 43 years
Extraction and Transmission (E&T) Contracts	25 years
Commodity contracts	5 to 20 years

Assets Held for Sale

The Corporation classifies assets as held for sale when the carrying amount will be principally recovered through a sale transaction rather than through continuing use. This condition is met when Management approves and commits to a formal plan to sell the assets, the assets are available for immediate sale in their present condition, and Management expects the sale to close within the next 12 months. Upon classifying an asset as held for sale, an asset is recorded at the lower of its carrying value or the estimated fair value less cost to sell. Assets held for sale are not depreciated or amortized.

Business Acquisitions

Business acquisitions are accounted for using the acquisition method. Under the acquisition method, assets and liabilities of the acquired entity are recorded at fair value at the date of acquisition. Acquisition-related costs are expensed as incurred. Goodwill represents the excess of purchase price over the fair value of the net assets acquired. Management applies its best estimates and assumptions to determine the fair value of net assets acquired; however, the estimates are subject to further refinement of assumptions over a measurement period, which may be up to one year from the acquisition date. During the measurement period, adjustments to assets acquired and liabilities assumed may be recorded, with a corresponding impact to goodwill.

Provisions on Assets

If facts and circumstances suggest that a long-lived asset or an intangible asset may be impaired, the carrying value is reviewed. If this review indicates that the value of the asset is not recoverable, as determined by the projected undiscounted cash flows related to the asset over its remaining life, then the carrying value of the asset is reduced to its estimated fair value and an impairment loss is recognized.

Goodwill is not subject to amortization, but assessed at least annually for impairment, or more often when events or changes in circumstances indicate that goodwill may be impaired. The annual assessment of goodwill is performed at the reporting unit level, which is an operating segment or one level below. The Corporation has the option to first assess qualitative factors to determine whether events or changes in circumstances indicate that the goodwill may be impaired. If a quantitative impairment test is performed, the fair value of the reporting unit will be compared to its carrying value (including goodwill). If the carrying value of the reporting unit exceeds the fair value, goodwill is reduced to its fair value and an impairment loss would be recorded in the Consolidated Statements of Income.

Investments Accounted for by the Equity Method

The equity method of accounting is used for investments in which AltaGas has the ability to exercise significant influence, but does not have a controlling interest. Equity investments are initially measured at cost and are adjusted for the Corporation's proportionate share of earnings or losses. Equity investments are increased for contributions made and decreased for distributions received. To the extent an investee undertakes activities necessary to commence its planned principal operations, the Corporation will capitalize interest costs associated with its investment during such period.

The HLBV methodology is used to allocate earnings or losses for certain WGL equity method investments when WGL's ownership interest percentage is different than distribution percentages. When applying HLBV accounting, the Corporation determines the amount that it would receive if an equity investment entity were to liquidate all of its assets at book value (as valued in accordance with U.S. GAAP) and distribute that cash to the investors based on the contractually defined liquidation priorities. The change in the Corporation's claim on the equity investment entity's book value at the beginning and end of the reporting period (adjusted for contributions and distributions) is the Corporation's share of the earnings or losses from the equity investment for the period.

An equity method investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. When such condition is deemed other than temporary, the carrying value of the investment is written down to its fair value, and an impairment charge is recorded in the Consolidated Statements of Income.

Financial Instruments

Non-Utility Operations

All financial instruments are initially recorded at fair value unless they qualify for, and are designated under, a normal purchase and normal sale (NPNS) exemption. Subsequent measurement of the financial instruments is based on their classification. The financial assets are classified as "held-for-trading", "held-to-maturity", or "loans and receivables". Financial liabilities are classified as "held-for-trading" or other financial liabilities. Subsequent measurement is determined by classification.

A physical contract generally qualifies for the NPNS exemption if the transaction is reasonable in relation to AltaGas' business needs and AltaGas has the ability, and intent, to deliver or take delivery of the underlying item. AltaGas continually assesses the contracts designated under the NPNS exemption and will discontinue the treatment of these contracts under this exemption where the criteria are no longer met.

Held-for-trading instruments include non-derivative financial assets and financial assets and liabilities that may consist of swaps, options, forwards, and equity securities. These financial instruments are initially recorded at their fair value, with subsequent changes in fair value recorded in net income. Held-to-maturity, loans and receivables, and other financial liabilities are recognized at amortized cost using the effective interest method unless they are held-for-sale and recognized at the lower of cost or fair value less transaction fees.

Investments in equity instruments not accounted for under the equity method that do not have a quoted market price in an active market are measured at cost. Income earned from these investments is included in the Consolidated Statements of Income under "other income".

Derivatives embedded in other financial instruments or contracts (the host instrument) are recorded separately and are measured at fair value if the economic characteristics of the embedded derivative are not closely related to the host instrument, the terms of the embedded derivative are the same as those of a standalone derivative, and the entire contract is not held-for-trading or accounted for at fair value. Changes in fair value are included in earnings.

The fair values recorded on the Consolidated Balance Sheets reflect netting of the asset and liability positions where counterparty master netting arrangements contain provisions for net settlement.

Transaction costs related to the acquisition of held-for-trading financial assets and liabilities are expensed as incurred.

Transaction costs for obtaining debt financing other than line-of-credit arrangements are recognized as a direct deduction from the related debt liability on the Consolidated Balance Sheets. Transaction costs related to line-of-credit arrangements are capitalized and included under "long-term investments and other assets" on the Consolidated Balance Sheets. Premiums and discounts are netted against long-term debt on the Consolidated Balance Sheets. The deferred charges are amortized over the life of the related debt on an effective interest basis and included in “interest expense” on the Consolidated Statements of Income.

<u>Regulated Utility Operations</u>

All physical and financial derivative contracts are initially recorded at fair value. Changes in the fair value of derivative instruments that are recoverable or refunded to customers when they settle are recorded as regulatory assets or liabilities. Changes in the fair value of derivatives not affected by rate regulation are reflected in net income.

Transaction costs for obtaining debt financing and reacquired debt costs are recorded as regulatory assets or liabilities, or as a reduction of the debt liability on the Consolidated Balance Sheets.

Weather-Related Instruments

WGL purchases certain weather-related instruments, such as heating degree day (HDD) derivatives and cooling degree day (CDD) derivatives to manage weather and price risks related to its natural gas and electricity sales. These derivatives are accounted for in accordance with ASC 815-45, Derivatives and Hedging – Weather Derivatives. For HDD derivatives, gains or losses are recognized when the actual HDD’s falls above or below the contractual HDD’s for each instrument. For CDD derivatives, gains or losses are recognized when the average temperature exceeds or is below a contractually stated level during the contract period. Refer to Note 23 for further discussion on weather-related instruments.

Hedges

As part of its risk management strategy, AltaGas may use derivatives to reduce its exposure to commodity price, interest rate, and foreign exchange risk. AltaGas may designate certain U.S. dollar-denominated debt as a net investment hedge of its U.S. subsidiaries. No other derivatives have been designated as hedges under ASC Topic 815.

<u>Non-Utility Operations</u>

The change in fair value of cash flow hedges is recognized in OCI. Gains or losses from cash flow hedges are reclassified to net income when the hedged transaction affects earnings, such as when the hedged forecasted transaction occurs.

<u>Regulated Utility Operations</u>

During planned issuances of debt securities, Washington Gas may utilize derivative instruments to manage the risk of interest-rate volatility. Gains and losses associated with these types of derivatives are recorded as regulatory liabilities or assets, and amortized in accordance with regulatory requirements, typically over the life of the related debt.

Credit Losses

The following are the Corporation's significant accounting policies upon adoption of ASC 326:

Accounts receivable, contract assets, a loan to an affiliate, and other long-term receivables within the scope of ASC 326 are recorded net of the allowance for credit losses in the Consolidated Balance Sheets. AltaGas regularly analyzes and evaluates the collectability of the accounts receivable based on a combination of factors. If circumstances related to the collectability change, the allowance for credit losses is adjusted. Accounts are written off when collection efforts are complete and future recovery is unlikely. See below for a description of how expected credit loss estimates are developed.

Utilities Customer Receivables and Contract Assets

AltaGas is exposed to risk through the non-payment of utility bills by customers. To manage this customer credit risk, AltaGas' regulated utilities customers are offered budget billing options or high risk customers may be required to provide a cash deposit until the requirement for deposit refunds are met. AltaGas can recover a portion of non-payments from customers in future periods through the rate-setting process. For accounts receivable generated by the Utilities business, an allowance for credit losses is recorded against revenue and is recognized using a historical loss-rate based on historical payment and collection experience. This rate may be adjusted based on Management’s expectations of unusual macroeconomic conditions and other factors. AltaGas regularly evaluates the reasonableness of the allowance based on a combination of factors, such as: the length of time receivables are past due, historical expected payment, collection experience, financial condition of customers, and other circumstances that could impact customers' ability or desire to make payments. For retail energy marketing customer receivables where AltaGas has enrolled in a regulatory utility purchase of receivable program, the associated utility discount rate is used to determine credit losses.

Midstream Customer Receivables and Contract Assets

AltaGas operates under an existing credit policy that is designed to mitigate credit risk. Credit limits are established for each counterparty and credit enhancements such as letters of credit, parent guarantees, and cash collateral may be required. The creditworthiness of all counterparties is continuously monitored. A credit loss reserve is recorded for receivables with customers and trading counterparties AltaGas considers to be below investment grade by applying an estimated loss rate. The estimated loss rate is based on the historical default rates published by external rating agencies. For accounts receivable, a one-year rate is used. For contract assets, historical loss rates associated with the estimated time frame that the contract asset will be billed to the customer is used. In the event a customer or trading counterparty no longer exhibits similar risk characteristics, the associated receivable is evaluated individually.

Other

For other long-term receivables, associated counterparties are evaluated and assigned internal credit ratings based on AltaGas' credit policy. An allowance for credit losses is recorded based on historical default rates published by external credit rating agencies and a rate commensurate with the period in which the receivables are expected to be collected.

Debt

AltaGas uses short-term debt in the form of commercial paper and advances under its syndicated bank credit facilities to fund seasonal cash requirements. Short-term obligations are excluded from current liabilities if AltaGas has the ability and the intent to refinance these obligations on a long-term basis. The ability to refinance is primarily demonstrated through the availability of long-term revolving committed credit facilities in an amount equal to or greater than the expected maximum short-term obligation.

Asset Retirement Obligations

AltaGas recognizes asset retirement obligations in the period in which the legal obligation is incurred and a reasonable estimate of fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and are depreciated over the estimated useful life of the asset. The liability is increased due to the passage of time over the estimated period until the settlement of the obligation, with a corresponding charge to accretion expense for asset retirement obligations.

There are timing differences between accretion and depreciation amounts being recorded pursuant to GAAP and the recognition of depreciation expense for legal asset removal costs that are recovered in rates, as allowed by the regulators. These timing differences are recorded as a reduction to “regulatory liabilities” in accordance with ASC 980.

Certain midstream and utility assets will have future legal obligations on retirement, but an asset retirement obligation has not been recorded due to its indeterminate life and corresponding indeterminable timing and scope of these asset retirement obligations. The Utilities recognize asset retirement obligations for some interim retirements, as expected by their regulators.

Revenue Recognition

AltaGas has revenue from various sources, including rate-regulated revenue, commodity sales, midstream service contracts, gas sales and transportation services, and storage services. For a detailed description of the Corporation’s revenue recognition policy by major source of revenue, please refer to Note 24.

Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are converted to the functional currency using the exchange rate in effect at the balance sheet date. Adjustments resulting from the conversion are recorded in the Consolidated Statements of Income. Non-monetary assets and liabilities are converted at the historical exchange rate in effect at the transaction date. Revenues and expenses are converted at the exchange rate applicable at the transaction date.

For foreign entities with a functional currency other than Canadian dollars, AltaGas’ reporting currency, assets and liabilities are translated into Canadian dollars at the rate in effect at the reporting date. Revenues and expenses are translated at average exchange rates during the reporting period. All adjustments resulting from the translation of the foreign operations are recorded in OCI.

AltaGas may designate some of its U.S. dollar denominated long-term debt as a foreign currency hedge of its investment in foreign operations. Accordingly, foreign exchange gains and losses, from the dates of designation, on the translation of the U.S. dollar denominated long-term debt are included in OCI.

Share Options and Other Compensation Plans

Share options granted are recorded using fair value. Compensation expense is measured at the date of the grant using the Black-Scholes-Merton model and is recognized over the vesting period of the options. Consideration received by AltaGas on exercise of the share options is credited to shareholders’ equity.

AltaGas has a phantom unit plan (Phantom Plan, formerly the medium-term incentive plan) for employees and executive officers which includes two types of awards: restricted units (RUs) and performance units (PUs). A portion of AltaGas’ RUs and

PUs are valued based on the dividends declared during the vesting period and the weighted average share price of AltaGas' common shares multiplied by the units outstanding at the end of the vesting period. Upon vesting, the RUs and PUs are paid in cash. The other portion of RUs and PUs are valued at US$1 per unit. Upon vesting, the RUs and PUs are paid in cash. All PUs are also subject to a performance multiplier ranging from 0 to 2.4 dependent on the Corporation's performance relative to performance targets as approved by the Board of Directors. Compensation expense is recognized using the liability method and is recorded as operating and administrative expense over the vesting period. A change in value of the RUs or PUs is recognized in the period the change occurs.

In addition, AltaGas has a deferred share unit plan (DSUP) for directors, officers, and employees as an additional form of long-term variable compensation incentive. Although the DSUP is available to directors, officers, and employees, AltaGas currently only grants deferred share units (DSUs) under the DSUP as a form of director compensation. The DSUs granted are fully vested upon being credited to a participant’s account, the participant is entitled to payment upon retirement, and payment is not subject to satisfaction of any requirements as to any minimum period of membership or employment or other conditions. DSUs are accounted for at fair value. Compensation expense is determined based on the fair value of the DSUs on the date of the grant and fluctuations in fair value are recognized in the period the change occurs.

Pension Plans and Post-Retirement Benefits

AltaGas maintains defined benefit pension plans, defined contribution plans, and other post-retirement benefit plans for eligible employees. Contributions made by the Corporation to the defined contribution plans are expensed in the period in which the contribution occurs.

The cost of defined benefit pension plans and post-retirement benefits is actuarially determined using the projected benefit method prorated based on service and Management’s best estimate of expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, and other actuarial factors including discount rates and mortality. Pension plan assets are measured at fair value. The expected return on plan assets is based on historical and projected rates of return for each asset class in the plan portfolio. The projected benefit obligation is discounted using the market interest rate on high-quality debt instruments with cash flows matching the timing and amount of benefit payments.

Unrecognized actuarial gains and losses in excess of 10 percent of the greater of the benefit obligation and the fair value of plan assets or the market-related value of assets along with any unamortized past service costs and credits are amortized on a straight-line basis over the expected average remaining service life of active employees. The expected average remaining service period of the active members covered by the defined benefit pension plans and post-retirement benefit plans is 10.2 years and 13.0 years, respectively.

AltaGas recognizes the overfunded or underfunded status of its pension and post-retirement benefit plans as either assets or liabilities in the Consolidated Balance Sheets. Unrecognized actuarial gains and losses and past service costs and credits that arise during the period are recognized in OCI or a regulatory asset or liability.

For certain regulated utilities, the Corporation expects to recover pension expense in future rates and therefore records unrecognized balances as either regulatory assets or liabilities. The regulatory assets or liabilities are amortized on a straight-line basis over the expected average remaining service life of active employees.

In 2020, AltaGas made a voluntary change in accounting principle for calculating the market-related value of assets (MRVA) used in the determination of Washington Gas' net periodic pension and other post-retirement benefit plan costs. The change uses the fair value approach for the fixed income investment asset class of the plan assets, compared to the prior method that utilized a calculated value where gains and losses arising from changes in fair value were deferred and amortized into the calculation of the MRVA over a period of five years. The MRVA is used in the calculation of the expected return on assets and the recognized actuarial gain or loss components of net periodic benefit cost. The approach applied for all other classes of assets remains unchanged.

Management believes that using the fair value approach for the fixed income investments in plan assets is preferable as it more closely aligns the recognition of related components within the net periodic benefit cost.

This change in accounting principle was not considered material to prior periods or the current year; therefore, the impact of the change was recognized in the current period. On the Consolidated Statements of Income, for the year ended December 31, 2020, the change resulted in an increase to income before income taxes of approximately $25 million (recorded within the line item “other income”) and an increase to net income applicable to common shares of approximately $19 million ($0.07 per basic and diluted common share), net of the tax impact of approximately $6 million recorded within the line item "deferred income tax expense (recovery)". Amounts related to regulated utility operations that are expected to be recoverable from or refunded to customers through the rate-setting process have been reflected as adjustments to regulatory assets or liabilities on the Consolidated Balance Sheets. For further discussion of pension plans and retiree benefits, see Note 28.

Income Taxes

Income taxes for the Corporation and its subsidiaries are calculated using the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are in effect in the periods in which the differences are expected to be settled or realized. Deferred income tax assets are routinely reviewed, and a valuation allowance is recorded to reduce the deferred tax assets if it is more likely than not that deferred tax assets will not be realized.

The financial statement effects of an uncertain tax position are recognized when it is more likely than not, based on technical merits, that the position will be sustained upon examination by a taxing authority. The current and deferred tax impact is equal to the largest amount, considering possible settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxing authorities.

Investment tax credits are recognized as reductions to income tax expense over the estimated service lives of the related properties.

The rate-regulated natural gas distribution subsidiaries recognize a separate regulatory asset or liability for the amount of deferred income taxes expected to be recovered from, or paid to, customers in the future.

Net Income per Share

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Dilutive net income per common share is calculated using the weighted average number of common shares outstanding adjusted for dilutive common shares related to the Corporation’s share-based compensation awards.

The potentially dilutive impact of the share-based compensation awards is determined using the treasury stock method. Under the treasury stock method, awards are treated as if they had been exercised with any proceeds used to repurchase common stock at the average market price during the period. Any incremental difference between the assumed number of shares issued and purchased is included in the diluted share computation.

Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Any such accruals are adjusted thereafter as additional information becomes available or circumstances change.

Leases

The following are the Corporation's significant accounting policies:

Leases – Lessee

AltaGas determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets, current operating lease liabilities, and long-term operating lease liabilities in the Consolidated Balance Sheets. Finance leases are included in property, plant and equipment and current and long-term debt in the Consolidated Balance Sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. AltaGas uses the rate implicit in the lease when readily determinable. When the implicit lease rate is not readily determinable, AltaGas uses its incremental borrowing rate to determine the present value of lease payments. AltaGas includes lessee options to renew or terminate the lease term in the determination of the ROU asset and lease liability when exercise is reasonably certain. The operating lease ROU asset is adjusted for lease payments made in advance of the commencement date, initial direct costs, and any lease incentives.

Operating lease expense is recognized on a straight-line basis over the lease term in "operating and administrative expense". Depreciation and interest expense are recorded on finance leases.

Leases – Lessor

AltaGas determines if an arrangement is a lease at inception. Lease payments under an operating lease are recognized on a straight-line basis over the term of the lease. Variable lease payments are recognized as revenue as the facts and circumstances on which the variable lease payment is based occur.

AltaGas does not include taxes assessed by governmental authorities, such as sales and related taxes, in the lease payments or variable lease payments.

Collaborative Arrangements

WGL has collaborative arrangements with a third party to facilitate the asset optimization program. The collaborative arrangements allocate a tiered or fixed percentage of profits or losses to the third party as compensation for its participation. The expense recorded related to the collaborative arrangements totaled $21 million for the year ended December 31, 2020 (2019 - income of $1 million).

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2020, AltaGas adopted the following Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASU):

- In June 2016, FASB issued ASU No. 2016-13 “Financial Instruments – Credit Losses and all related amendments (collectively "ASC 326"): Measurement of Credit Losses on Financial Instruments”. The ASU replaces the current “incurred loss” impairment methodology with an “expected loss” model for financial assets measured at amortized cost. AltaGas has applied ASC 326 using the modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date of the new standard. Prior periods presented for comparative purposes were not adjusted. Upon adoption of ASC 326, "accounts receivable, net of allowances" decreased by $2 million and "long-term investments and other assets" decreased by $5 million, with an offsetting increase to "accumulated deficit". AltaGas has elected to account for its cash equivalents at fair value. Please also refer to Note 23 of the Consolidated Financial statements as at and for the year ended December 31, 2020 for further details;

- ASU No. 2018-13 “Fair Value Measurement – Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement”. The amendments in this ASU modify the disclosure requirements on fair value measurements. The adoption of this ASU did not have a material impact on AltaGas’ consolidated financial statements, but resulted in certain minor adjustments to the fair value disclosures. Please also refer to Note 23 of the Consolidated Financial statements as at and for the year ended December 31, 2020 for further details;

- ASU No. 2018-17 “Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities”. The amendments in this ASU provide a private-company scope exception to the VIE guidance for certain entities and clarify that indirect interests held through related parties under common control are considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests. The adoption of this ASU did not have a material impact on AltaGas’ consolidated financial statements;

- ASU No. 2018-18 "Collaborative Arrangements: Clarifying the Interaction between Topic 808 and Topic 606". The amendments in this ASU clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606, adds unit-of-account guidance in ASC 808 to align with the guidance in ASC 606, and requires that a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, is precluded from presenting the transaction together with revenue recognized under ASC 606 if the collaborative arrangement participant is not a customer. The adoption of this ASU did not have a material impact on AltaGas’ consolidated financial statements;

- ASU No. 2019-01 "Leases: Codification Improvements". The amendments in this ASU provide a fair value exception for lessors that are not manufacturers or dealers, clarifies the presentation of principal payments received under sales-type and direct finance leases for depository and lending institutions, and clarifies that interim transition disclosure requirements related to the change on income statement, net income and related per share amounts for the adoption of ASC 842 are not required. The adoption of this ASU did not have a material impact on AltaGas’ consolidated financial statements;

- ASU No. 2019-04 “Financial Instruments: Codification Improvements". The amendments in this ASU provide clarification and improve the codification in recently issued accounting standards relating to credit losses, hedge accounting, and financial instruments. The amendments related to credit losses were evaluated in conjunction with ASU 2016-13 above. The adoption of this ASU did not have a material impact on AltaGas’ consolidated financial statements; and

- ASU No. 2020-03 "Codification Improvements to Financial Instruments". The amendments in this ASU provide clarification and improve the codification to certain aspects of accounting standards related to financial instruments. The adoption of this ASU did not have a material impact on AltaGas’ consolidated financial statements.

Effective December 31, 2020, AltaGas adopted the following FASB issued ASU:

- ASU No. 2018-14 “Compensation-Retirement Benefits-Defined Benefit Plans – General: Disclosure Framework – Changes to the Disclosure Requirements for the Defined Benefit Plans”. The amendments in this ASU modify the disclosure requirements on defined benefit pension and other post-retirement plans. The adoption of this ASU did not have a material impact on AltaGas' consolidated financial statements, but resulted in certain modifications to the disclosures in the pension footnote. Please also refer to Note 28 of the Consolidated Financial statements as at and for the year ended December 31, 2020 for further details.

FUTURE CHANGES IN ACCOUNTING PRINCIPLES

In December 2019, FASB issued ASU No. 2019-12 "Income Taxes: Simplifying the Accounting for Income Taxes". The amendments in this ASU simplify the accounting for income taxes by clarifying certain aspects of current guidance and removing some exceptions to the general principles in ASC 740. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The adoption of this ASU is not expected to have a material impact on AltaGas’ financial statements.

In January 2020, FASB issued ASU No. 2020-01 "Derivatives and Hedging: Clarifying the Interactions between Topic 321, Topic 323, and Topic 815". The amendments in this ASU clarify the application of the measurement alternative for equity instruments and the measurement of non-derivative forward contracts or purchased call options used to acquire equity securities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on AltaGas’ financial statements.

In March 2020, FASB issued ASU No. 2020-04 "Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships affected by reference rate reform if certain criteria are met. These apply only to contracts, hedging relationships, and other transactions that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU are effective as of March 12, 2020 through December 31, 2022. AltaGas may elect to apply the amendments as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 on a prospective basis. AltaGas has not elected to adopt this ASU as of December 31, 2020, and is assessing the impact of this ASU on its consolidated financial statements.

In August 2020, FASB issued ASU No. 2020-06 "Debt with Conversion and Other Options and Topic 815-40 - Derivatives and Hedging - Contracts in Entity's Own Equity: Accounting for Convertible Instruments and Contract in an Entity's Own Equity." The amendments in this Update simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity’s own equity. The amendments in this Update are effective for public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on AltaGas' financial statements.

3. Acquisition of Petrogas Energy Corporation

On December 15, 2020, following the receipt of all required approvals, AltaGas acquired an additional 37 percent of Petrogas Energy Corp. (the Petrogas Acquisition) for total cash consideration upon close of approximately $715 million. Additional post-acquisition contingent payments of up to $16 million may be paid no later than 2022 based on certain criteria, including earnings targets being met (Note 29). AltaGas funded the transaction through draws on its existing credit facilities. As a result of the transaction, AltaGas' ownership in Petrogas has increased to approximately 74 percent with Idemitsu Kosan Co., Ltd. (Idemitsu) owning the remaining approximately 26 percent. Subsequent to the transaction, AltaGas controls Petrogas and as such, Petrogas results have been consolidated for the period subsequent to close.

This acquisition is consistent with AltaGas' global export strategy, growing Midstream operations, and corporate focus on building a diversified, low-risk, high-growth Utilities and Midstream business. The transaction provides AltaGas with operational responsibility of strategic assets that, along with the Ridley Island Propane Export Terminal and existing Midstream assets, position the Company to capture efficiencies that are expected to accrue to shareholders and customers.

AltaGas accounted for the acquisition as a business combination achieved in stages and re-measured it's previously held 37 percent equity investment in Petrogas at an acquisition date fair value of $631 million, resulting in a gain of $22 million. The fair value of assets and liabilities acquired were determined using a combination of income and cost approach. The fair value of the previously held interest and non-controlling interests were derived from the valuation of the assets and liabilities including considerations for expected synergies. Prior to the acquisition, AltaGas' indirect non-controlling interest in Petrogas was accounted for as an investment accounted for by the equity method (Note 14).

The following table summarizes the preliminary purchase price allocation representing the consideration paid and the estimated fair value of the net assets acquired as at December 15, 2020. The purchase price allocation is preliminary and reflects Management's current best estimate of the fair value of Petrogas' assets and liabilities based on the analysis of information obtained to date. Management is continuing to obtain specific information to support the valuation of property, plant and equipment, intangibles, investments accounted for by the equity method, non-controlling interest, contingencies, income taxes, environmental matters and asset retirement obligations. As additional information becomes available, the purchase price allocation may differ materially from the preliminary purchase price allocation below. The offset to any adjustments made to the aforementioned financial statement captions during the measurement period are expected to be recorded in goodwill. Any adjustments to the purchase price allocation will be made as soon as practicable but no later than one year from the date of acquisition.

Fair value of previously held interest in AltaGas Idemitsu Joint Venture LP (AIJVLP) on the acquisition date	**$**	**631**
Less: Carrying value of previously held interest in AIJVLP		**(609)**
Gain on re-measurement of previously held interest	**$**	**22**

Purchase consideration for an additional 37 percent of Petrogas	**$**	**715**
Deemed settlement of intercompany debt		**120**
Fair value of previously held interest on the acquisition date		**631**
Less: Fair value assigned to net assets		
Current assets		536
Property, plant and equipment		523
Intangible assets		10
Operating right-of-use assets		192
Long-term investments and other assets		4
Investments accounted for by the equity method		125
Current liabilities		(363)
Long-term debt		(53)
Asset retirement obligations		(13)
Deferred income taxes		(21)
Operating lease liabilities		(152)
Other long-term liabilities		(26)
Fair value of net assets acquired	**$**	**762**
Fair value of AIJVLP's non-controlling interest in Petrogas on the acquisition date		**467**
Goodwill	**$**	**1,171**

The fair value of AIJVLP's non-controlling interest in Petrogas at the acquisition date was $467 million, which was determined in the same manner described for the previously held investments. Included in the fair value calculation are synergies that AltaGas expects to achieve as part of the acquisition. The synergies are broken down into items that will accrue to Petrogas versus other AltaGas businesses. AltaGas operates businesses that are similar in nature to Petrogas and expects some of the synergies to impact assets such as RIPET and other processing facilities. The allocation of synergies to the various businesses is currently based on the expectations that existed as of the acquisition date. Further refinement of the synergies will occur as the businesses are integrated and assessed by AltaGas' management. New allocations of synergies will be carefully assessed to determine their impact on the purchase price allocation.

The fair value of property, plant and equipment was estimated using the valuation methodologies described in ASC 820, Fair Value Measurements and Disclosures, to value the property, plant and equipment purchased. The preliminary fair value of Petrogas' property, plant and equipment was determined using both the income and cost approaches.

The acquired intangible assets consist primarily of the fair value of contractual arrangements for the purchase and sale of commodities. These intangibles have been valued using the income approach.

Investments accounted for by the equity method include Petrogas' 50 percent equity interest in Petrogas Terminals Penn LLC, and 40 percent equity interest in Strathcona Storage LP. The preliminary fair value of these investments was determined using an income approach.

The fair value of current assets and current liabilities approximate their carrying values due to their short-term nature, with the exception of inventory. Inventory of $164 million has been recorded at it's fair value using the expected selling prices and reasonable adjustments for the current location of the products. A contingent liability related to a property tax dispute has been recorded as part of the purchase price allocation. This preliminary amount represents management's best estimate of the fair value of the contingent liability and has been included in current liabilities. This item is included in the preliminary purchase price allocation as the hearings on the matter will occur over the next 12 months and the outcome will be settled.

Right of use assets and lease liabilities have been recorded for operating leases. The right of use assets have been adjusted to reflect the market lease rates at the acquisition date and resulted in a reduction of the acquired right of use assets.

Deferred income tax assets and liabilities have been applied on the cumulative amount of tax applicable to temporary differences between the accounting and tax values of assets and liabilities and are considered preliminary.

The preliminary purchase price allocation includes goodwill of approximately $1.2 billion. The goodwill is primarily related to the opportunities to grow the LPG export business, expanded access to capital and greater financial flexibility as a result of increased scale, and earnings diversification. The goodwill recognized as part of this transaction is not deductible for income tax purposes, and as such, no deferred taxes have been recorded related to this goodwill.

Pre-tax acquisition expenses for the year ended December 31, 2020 of approximately $6 million were incurred and included in the Consolidated Statements of Income.

Upon completion of the Petrogas Acquisition, AltaGas began consolidating Petrogas. For the period from close of the transaction through December 31, 2020, Petrogas has generated approximately $143 million in revenues and $3 million in net income after taxes.

The following supplemental unaudited, pro forma consolidated financial information for the years ended December 31, 2020 and 2019 gives effect to the Petrogas Acquisition as if it had closed on January 1, 2019. This pro forma information is presented for information purposes only and does not purport to be indicative of the results that would have occurred had the Petrogas Acquisition taken place at the beginning of 2019, nor is it indicative of the results that may be expected in future periods.

	Year Ended December 31	
	2020	2019
Pro forma revenue	**$ 7,917**	$ 9,217
Pro forma net income after tax	**$ 537**	$ 1,004

Pro forma net income after taxes excludes all non-recurring acquisition-related expenses incurred by AltaGas and Petrogas. Pro forma net income after taxes was also adjusted to exclude AltaGas' equity earnings from Petrogas prior to the acquisition, finance costs associated with credit facilities used to fund the Petrogas Acquisition, as well as the associated tax impacts. For the year ended December 31, 2020, the total after-tax pro forma adjustments decreased net income after taxes by $31 million (2019 – $75 million).

4. Dispositions

AltaGas Canada Inc. (ACI)

On March 31, 2020, the Public Sector Pension Investment Board and the Alberta Teachers' Retirement Fund Board acquired all the issued and outstanding common shares of ACI for $33.50 per share. AltaGas owned 11,025,000 (approximately 37 percent) of ACI's common shares and received cash proceeds of approximately $369 million upon close. For the year ended December 31, 2020, AltaGas recognized a pre-tax gain on disposition of approximately $206 million in the Consolidated Statements of Income under the line item "other income". Following a name change in connection with the arrangement, ACI changed its name to TriSummit Utilities Inc.

Distributed Generation Assets

In 2019, AltaGas closed the disposition of its portfolio of U.S. distributed generation assets. The majority of assets were transferred in 2019, except for one project for which ownership will not legally transfer to the purchaser until various consents and approvals are obtained. As such, the carrying value of the assets and liabilities relating to this project remain classified as held for sale on the Consolidated Balance Sheets as at December 31, 2020 (Note 5). For the year ended December 31, 2020, AltaGas recognized a pre-tax gain on disposition of approximately $9 million in the Consolidated Statements of Income under the line item "other income" related to projects transferred in 2020. In addition, AltaGas recorded a pre-tax provision of $3 million related to the remaining U.S. distributed generation project which has not yet transferred to the purchaser (Note 6). The purchaser was entitled to after-tax earnings from the distributed generation projects, including the project awaiting consent, beginning September 1, 2019.

Harmattan Land Parcels

In the second quarter of 2020, AltaGas completed the sale of land parcels located near the Harmattan gas processing plant for gross cash proceeds of approximately $3 million. There was no gain or loss resulting from this disposition.

Pomona Energy Storage Facility and Ripon Gas-fired Facility

In the third quarter of 2020, AltaGas completed the sales of AltaGas Pomona Energy Storage Inc. and land related to a gas-fired power generation facility in the U.S., as well as a gas fired facility in Ripon, California, for aggregate gross cash proceeds, before working capital and other adjustments, of approximately $67 million. AltaGas recognized a pre-tax gain on these dispositions of approximately $8 million in the Consolidated Statements of Income under the line item "other income".

5. Assets Held For Sale

As at		**December 31, 2020**		December 31, 2019
Assets held for sale				
Property, plant and equipment	**$**	**4**	$	22
Operating right-of-use assets		**—**		1
Goodwill		**—**		1
Other long-term assets		**—**		3
	$	**4**	$	27
Liabilities associated with assets held for sale				
Unamortized investment tax credits	**$**	**1**	$	3
Operating lease liabilities - long-term		**—**		1
	$	**1**	$	4

Distributed Generation Assets

In 2019, AltaGas announced that it entered into a definitive agreement for the sale of its portfolio of U.S. distributed generation assets (Note 4). The transaction closed in September 2019; however, there is one project for which ownership will not legally transfer to the purchaser until various consents and approvals are obtained. As such, the carrying value of the assets and liabilities related to this project remains classified as held for sale at December 31, 2020, which resulted in the reclassification of $4 million of assets to assets held for sale and $1 million of liabilities to liabilities associated with assets held for sale on the Consolidated Balance Sheets. The portion of the purchase price relating to this project is approximately $4 million (US$3 million) and is recorded within "accounts payable and accrued liabilities" on the Consolidated Balance Sheets until this project is legally transferred to the purchaser. These assets and liabilities are recorded in the Corporate/Other segment.

6. Provisions on Assets

Year Ended December 31		2020		2019
Midstream	**$**	**106**	$	34
Corporate/Other		**3**		382
	$	**109**	$	416

Midstream

In 2020, AltaGas recorded pre-tax provisions of $106 million. Of this, approximately $104 million related to the Alton Natural Gas Storage Project, which was impaired as AltaGas does not believe that the future expected cash generation from the project aligns with the current carrying value. The remaining $2 million pre-tax provision related to land parcels located near the Harmattan gas processing plant which were sold in the second quarter of 2020 (Note 4). The pre-tax provisions were recorded against property, plant and equipment. In 2019, AltaGas recorded pre-tax provisions of $34 million related to a sour gas treatment facility in Alberta.

Corporate/Other

In 2020, AltaGas recorded pre-tax provisions totaling $3 million related to the remaining U.S. distributed generation projects which have not yet transferred to the purchaser and are classified as held for sale as at December 31, 2020. The pre-tax provisions were recorded against property, plant and equipment. In 2019, AltaGas recorded pre-tax provisions of $382 million related to various assets in the Corporate/Other segment.

7. Inventory

As at December 31		2020		2019
Natural gas held in storage [(a)]	**$**	**309**	$	359
Natural gas liquids		**116**		26
Materials and supplies		**84**		57
Renewable energy credits and emission compliance instruments		**80**		64
Crude oil and condensate		**43**		—
Processed finished products		**4**		—
	$	**636**	$	506

(a) As at December 31, 2020, $193 million of the natural gas held in storage was held by rate-regulated utilities (2019 - $214 million).

8. Property, Plant and Equipment

As at	December 31, 2020			December 31, 2019		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Utilities	**$ 7,791**	**$ (286)**	**$ 7,505**	$ 7,316	$ (155)	$ 7,161
Midstream	**4,094**	**(951)**	**3,143**	3,182	(585)	2,597
Corporate/Other	**842**	**(598)**	**244**	1,025	(636)	389
Reclassified to assets held for sale	**(4)**	**—**	**(4)**	(24)	2	(22)
	$ 12,723	**$ (1,835)**	**$ 10,888**	$ 11,499	$ (1,374)	$ 10,125

Interest capitalized on long-term capital construction projects for the year ended December 31, 2020 was $6 million (2019 - $15 million).

As at December 31, 2020, the Corporation had approximately $457 million (December 31, 2019 - $725 million) of capital projects under construction that were not yet subject to amortization.

Depreciation expense related to property, plant and equipment (including assets under capital leases) for the year ended December 31, 2020 was $346 million (2019 - $358 million).

9. Intangible Assets

As at	December 31, 2020			December 31, 2019		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
E&T contracts	**$ 26**	**$ (16)**	**$ 10**	$ 27	$ (15)	$ 12
Electricity service agreements	**—**	**—**	**—**	9	(8)	1
Energy services relationships	**90**	**(45)**	**45**	91	(27)	64
Software	**304**	**(133)**	**171**	304	(102)	202
Land rights	**1**	**—**	**1**	1	—	1
Commodity contracts	**332**	**(20)**	**312**	327	(21)	306
	$ 753	**$ (214)**	**$ 539**	$ 759	$ (173)	$ 586

Amortization expense related to intangible assets for the year ended December 31, 2020 was $68 million (2019 - $80 million).

As at December 31, 2020, the Corporation excluded $176 million (December 31, 2019 - $185 million) from the asset base subject to amortization. Items excluded relate to gas transportation capacity contracts, software assets under development, and assets with an indefinite life.

The following table sets forth the estimated amortization expense of intangible assets, excluding any amortization of assets not yet subject to amortization as well as assets with an indefinite life, for the years ended December 31:

2021	**$**	**75**
2022	**$**	**72**
2023	**$**	**60**
2024	**$**	**39**
2025	**$**	**15**
Thereafter	**$**	**102**

10. Leases

Lessee

AltaGas has operating and finance leases for office space, office equipment, field equipment, rail cars, aquatic use, vehicles, power and gas facilities, transmission and distribution assets, and land.

The components of lease expense were as follows:

		Year Ended December 31, 2020		Year Ended December 31, 2019
Operating lease cost (includes variable lease payments)	**$**	**43**	$	29
Finance lease cost				
Amortization of right-of-use assets	**$**	**4**	$	4
Total finance lease cost	**$**	**4**	$	4
Total lease cost	**$**	**47**	$	33

Supplemental cash flow information related to leases was as follows:

Year Ended December 31		**2020**		2019
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	**$**	**(36)**	$	(21)
Financing cash flows from finance leases [(a)]	**$**	**(4)**	$	(4)
Right-of-use assets obtained in exchange for new lease liabilities				
Operating leases	**$**	**227**	$	50
Finance leases	**$**	**6**	$	5

(a) Included within repayment of long-term debt on the Consolidated Statements of Cash Flows.

Supplemental balance sheet information related to leases was as follows:

As at December 31		2020		2019
Operating Leases				
Operating lease right-of-use assets				
Long-term	**$**	**372**	$	170
Total operating lease right-of-use assets	**$**	**372**	$	170
Operating lease liabilities				
Current	**$**	**(95)**	$	(27)
Long-term		**(304)**		(153)
Total operating lease liabilities	**$**	**(399)**	$	(180)
Finance Leases				
Property and equipment, gross	**$**	**19**	$	13
Accumulated depreciation		**(7)**		(3)
Property and equipment, net	**$**	**12**	$	10
Current portion of long-term debt	**$**	**(4)**	$	(4)
Long-term debt		**(8)**		(6)
Total finance lease liabilities	**$**	**(12)**	$	(10)

As at	December 31, 2020	December 31, 2019
Weighted average remaining lease term (years)		
Operating leases	**7.4**	10.9
Finance leases	**4.8**	5.2
Weighted average discount rate (%)		
Operating leases	**2.42**	3.51
Finance leases	**2.89**	3.68

Maturity analysis of lease liabilities was as follows:

		Operating Leases		Finance Leases
2021	$	96	$	4
2022		81		4
2023		58		2
2024		50		1
2025		40		1
Thereafter		125		2
Total lease payments		450		14
Less: imputed interest		(51)		(2)
Total	$	399	$	12

Lessor

Certain of AltaGas' revenues are obtained through power purchase agreements or take-or-pay contracts whereby AltaGas is the lessor in these operating lease arrangements. Minimum lease payments received are amortized over the term of the lease. Contingent rentals are recorded when the condition that created the present obligation to make such payments occurs such as when actual electricity is generated and delivered.

Maturity analysis of lease receivables was as follows:

		Operating Leases
2021	$	127
2022		117
2023		108
2024		41
2025		41
Thereafter		404
Total	$	838

The carrying value of property, plant, and equipment associated with these leases was approximately $0.5 billion as at December 31, 2020.

AltaGas manages its risk associated with the residual value of its leased assets through strategically constructing leased facilities in key commercial regions and retaining the ability to sell commodities and ancillary services via the merchant market or through commodity sales agreements.

11. Goodwill

As at		**December 31, 2020**		December 31, 2019
Balance, beginning of year	**$**	**3,942**	$	4,068
Business acquisition *(note 3)*		**1,171**		—
Adjustment to goodwill on business acquisition		**—**		92
Goodwill included in dispositions		**—**		(29)
Reclassified to assets held for sale		**—**		(1)
Foreign exchange translation		**(74)**		(188)
Balance, end of year	**$**	**5,039**	$	3,942

12. Long-Term Investments and Other Assets

As at		**December 31, 2020**		December 31, 2019
Investments in publicly-traded entities	**$**	**—**	$	4
Loan to affiliate *(notes 23 and 30)*		**—**		45
Deferred lease receivable		**12**		17
Debt issuance costs associated with credit facilities		**3**		6
Refundable deposits		**9**		9
Prepayment on long-term service agreements		**70**		81
Deferred information technology costs		**4**		—
Cash calls from joint venture partners		**26**		10
Contract asset *(net of credit losses of $1 million) (notes 23 and 24)*		**50**		30
Rabbi trust and other restricted cash *(notes 28, 29 and 31)*		**19**		32
Other long-term receivables *(net of credit losses of $2 million) (notes 23 and 29)*		**18**		33
Capitalized contract costs		**5**		—
Financial transmission rights		**12**		12
Other		**17**		18
	$	**245**	$	297

13. Variable Interest Entities

Consolidated VIEs

AltaGas consolidates VIEs where the Corporation is deemed the primary beneficiary. The primary beneficiary of a VIE has the power to direct the activities of the entity that most significantly impact its economic performance such as being the provider of construction, operating and marketing services to the entity. In addition, the primary beneficiary of a VIE also has the obligation to absorb losses of the entity or the right to receive benefits that could potentially be significant to the VIE. AltaGas determined that it is the primary beneficiary of the following VIEs:

Ridley Island LPG Export Limited Partnership

On May 5, 2017, AltaGas LPG Limited Partnership (AltaGas LPG), a wholly-owned subsidiary of AltaGas, and Vopak Development Canada Inc. (Vopak), a wholly-owned subsidiary of Koninklijke Vopak N.V. (Royal Vopak), a public company incorporated under the laws of the Netherlands, formed the Ridley Island LPG Export Limited Partnership (RILE LP) to develop, own and operate the Ridley Island Propane Export Terminal (RIPET). AltaGas' subsidiaries hold a 70 percent interest while Vopak holds a 30 percent interest in RILE LP. The construction cost of RIPET was funded by AltaGas LPG and Vopak in proportion to their respective interests in RILE LP. As part of the arrangements, AltaGas entered into a long-term agreement for the capacity of RIPET with RILE LP, and AltaGas and certain of its subsidiaries provide operating services to RILE LP.

AltaGas has determined that RILE LP is a VIE in which it holds variable interests and is the primary beneficiary. In the determination that AltaGas is the primary beneficiary of the VIE, AltaGas noted that it has the power to direct the activities that most significantly impact the VIE's economic performance through the operating and marketing services provided to RILE LP. In addition, AltaGas has the obligation to absorb the losses and the right to receive the benefits that could potentially be significant to RILE LP through the long-term agreement for the capacity of RIPET. As such, AltaGas has consolidated RILE LP.

The assets of RILE LP are the property of RILE LP and are not available to AltaGas for any other purpose. RILE LP's asset balances can only be used to settle its own obligations. The liabilities of RILE LP do not represent additional claims against AltaGas' general assets. AltaGas' exposure to loss as a result of its interest as a limited partner is its net investment. AltaGas and Royal Vopak have provided limited guarantees for the obligations of their respective subsidiaries for the construction cost of RIPET. With the commencement of commercial operations at RIPET, the terms of the long-term capacity agreement between AltaGas LPG and RILE LP provide for a return on and of capital and reimbursement of RIPET's operating costs by AltaGas LPG in accordance with the terms set out in the agreement.

The following table represents amounts included in the Consolidated Balance Sheets attributable to AltaGas' consolidated VIE:

As at	**December 31, 2020**	December 31, 2019
Current assets	**$ 7**	$ 6
Property, plant and equipment	**358**	371
Long-term investments and other assets	**50**	53
Current liabilities	**(2)**	(3)
Asset retirement obligations	**(2)**	(3)
Net assets	**$ 411**	$ 424

Unconsolidated VIE

Strathcona Storage Limited Partnership (SSLP)

Upon the acquisition of Petrogas on December 15, 2020, AltaGas acquired an indirect interest in SSLP, a partnership formed with ATCO Energy Solutions Ltd. to construct, operate, and maintain underground NGL storage caverns at Fort Saskatchewan, Alberta. The facility currently has four underground NGL storage salt caverns in service, with a fifth cavern under development. As at December 31, 2020, AltaGas held an indirect 30 percent equity investment in SSLP with a carrying value of $124 million, inclusive of fair value adjustments on acquisition date (Note 3). SSLP is not consolidated by Petrogas and instead is accounted for by the equity method of accounting. Petrogas is not the primary beneficiary of SSLP and it does not have the power to direct the activities most significant to the economic performance of SSLP.

14. Investments Accounted for by the Equity Method

			Carrying value as at December 31		Equity income (loss) for the year ended December 31	
Description	**Location**	**Ownership Percentage**	**2020**	2019	**2020**	2019
AltaGas Canada Inc. (ACI) [(a)]	Canada	**—**	**$ —**	$ 164	**$ 3**	$ 17
AltaGas Idemitsu Joint Venture LP [(b)]	Canada	**—**	**—**	431	**(25)**	63
Constitution Pipeline, LLC (Constitution) [(c)]	United States	**—**	**—**	—	**(7)**	—
Eaton Rapids Gas Storage System	United States	**50**	**26**	27	**2**	1
Meade Pipeline Co. LLC [(d)]	United States	**—**	**—**	—	**—**	(4)
Mountain Valley Pipeline, LLC (Mountain Valley) [(e)]	United States	**10**	**718**	672	**62**	43
Sarnia Airport Storage Pool LP	Canada	**50**	**18**	18	**1**	1
Petrogas Preferred Shares [(f)]	Canada	**n/a**	**—**	150	**13**	13
Petrogas Terminals Penn LLC [(g)]	United States	**37**	**1**	—	**—**	—
Stonewall Gas Gathering Systems LLC [(d)]	United States	**—**	**—**	—	**—**	7
Strathcona Storage LP [(g)]	Canada	**30**	**124**	—	**—**	—
			$ 887	$ 1,462	**$ 49**	$ 141

(a) ACI was acquired by the Public Sector Pension Investment Board and the Alberta Teachers' Retirement Fund Board on March 31, 2020 (Note 4).

(b) Upon acquisition of Petrogas on December 15, 2020 (Note 3), AltaGas no longer has an equity investment in AIJVLP.

(c) The equity method is considered appropriate because Constitution is a Limited Liability Company (LLC) with specific ownership accounts and ownership between five and fifty percent, resulting in WGL Midstream exercising a more than minor influence over the investee's operating and financing policies. In February 2020, the partners of Constitution elected not to proceed with the pipeline project and Constitution was dissolved. The loss recorded in 2020 relates to a provision recorded against the equity investment (see below for further discussion).

(d) Disposed of in 2019.

(e) The equity method is considered appropriate because Mountain Valley is an LLC with specific ownership accounts and ownership between five and fifty percent, resulting in WGL Midstream exercising a more than minor influence over the investee's operating and financing policies.

(f) Petrogas' preferred shares ceased to be an investment accounted for by the equity method after AltaGas acquired a controlling interest in Petrogas on December 15, 2020 (Note 3).

(g) Acquired on December 15, 2020 as part of the Petrogas Acquisition (Note 3).

The carrying amount of certain equity investments differs from the amount of the underlying equity in net assets. These basis differences include amounts related to purchase accounting adjustments, capitalized interest, and a contractual cap on contributions to Mountain Valley.

Summarized combined financial information, assuming a 100 percent ownership interest in AltaGas' equity investments listed above, is as follows:

Year Ended December 31 [(a)]		2020		2019
Revenues	**$**	**828**	$	1,109
Expenses		**(181)**		(355)
	$	**647**	$	754

As at December 31 [(a)]		2020		2019
Current assets	**$**	**351**	$	411
Property, plant and equipment	**$**	**7,598**	$	8,034
Intangible assets	**$**	**—**	$	22
Long-term investments and other assets	**$**	**5**	$	1,459
Current liabilities	**$**	**(281)**	$	(394)
Other long-term liabilities	**$**	**(2)**	$	(992)

(a) For equity investments that were disposed of in the periods presented, revenues and expenses reflect the period prior to disposition and balance sheet amounts are $nil. For equity investments that were acquired in the year (Note 3), revenues and expenses reflect the period subsequent to acquisition and balance sheet amounts are included as at December 31, 2020.

Equity Method Investments Acquired

In connection with the acquisition of Petrogas (Note 3), AltaGas acquired the following investments accounted for by the equity method:

<u>Petrogas Terminals Penn LLC</u>

Petrogas owns a 50 percent equity interest in Petrogas Terminals Penn LLC, a partnership with a regional propane retailer engaged in rail offloading of propane for distribution by truck to customers in Pennsylvania and other nearby states.

<u>Strathcona Storage LP</u>

Petrogas owns a 40 percent equity interest in Strathcona Storage Limited Partnership, a partnership with ATCO Energy Solutions Ltd., which is engaged in the development of underground NGL storage caverns at Fort Saskatchewan, Alberta. SSLP is considered a VIE (Note 13) and is accounted for using the equity method.

AltaGas Canada Inc.

On March 31, 2020, the Public Sector Pension Investment Board and the Alberta Teachers' Retirement Fund Board acquired all the issued and outstanding common shares of ACI for $33.50 per share (Note 4). AltaGas owned 11,025,000 (approximately 37 percent) of ACI's common shares and received cash proceeds of approximately $369 million upon close. AltaGas recognized a pre-tax gain on disposition of approximately $206 million in the Consolidated Statements of Income under the line item "other income" (Note 27). Following a name change in connection with the arrangement, ACI changed its name to TriSummit Utilities Inc.

Petrogas/AIJVLP

At the beginning of 2020, AltaGas held an indirect approximate one-third interest in Petrogas through its equity investment in AIJVLP. In the first quarter of 2020, one of Petrogas' shareholders has converted their preferred shares of Petrogas to common shares resulting in the dilution of AltaGas' indirect ownership in Petrogas common shares from approximately 33.3 percent to approximately 29.2 percent. In addition, prior to the close of the Petrogas Acquisition in the fourth quarter of 2020, AltaGas converted their preferred shares of Petrogas to common shares. As a result of these transactions, in 2020, AltaGas recognized pre-tax dilution losses totaling approximately $30 million in the Consolidated Statements of Income under the line item "income from equity investments". There were additional expenses of $12 million recorded to "income from equity investments" related to various adjustments to pre-acquisition balances of Petrogas. This primarily included amounts relating to severance, transaction costs and impairment losses related to the acquisition of Petrogas. Upon close of the Petrogas Acquisition on December 15, 2020, AltaGas recognized a pre-tax gain of $22 million in the Consolidated Statements of Income under the line item "other income" on the re-measurement of it's previously held equity investment in AIJVLP. Subsequent to the acquisition, AltaGas no longer has an equity investment in AIJVLP.

Provisions on investments accounted for by the equity method

In the year ended December 31, 2020, AltaGas recorded a pre-tax provision on equity investments of approximately $7 million in the Consolidated Statements of Income under the line item "income from equity investments" for costs associated with AltaGas' equity investment in the Constitution pipeline project which was canceled in February 2020.

In the year ended December 31, 2019, AltaGas recorded a pre-tax provision of $44 million against its investment in Meade as a result of the sale of WGL Midstream's interest in the Central Penn Pipeline. The disposition of the investment in this entity was completed in the fourth quarter of 2019. In addition, AltaGas recorded a pre-tax provision of $2 million against its investment in Craven County Wood Energy LP as a result of a pending sale. The disposition of the investment in this entity was completed in the third quarter of 2019.

15. Short-term Debt

As at		**December 31, 2020**		December 31, 2019
Commercial paper [(a)]	**$**	**236**	$	389
Project financing		**20**		71
	$	**256**	$	460

(a) Washington Gas use short-term debt in the form of commercial paper or unsecured short-term bank loans to fund seasonal cash requirements. Revolving committed credit facilities are maintained in an amount equal to or greater than the expected maximum commercial paper position.

Project Financing

WGL and certain of its subsidiaries previously obtained third-party project financing on behalf of the United States federal government to provide funds for the construction of certain energy management services projects entered into under Washington Gas' area-wide contract. When these projects are formally accepted by the government and deemed complete, the ownership of the receivable is assigned to the third-party lender in satisfaction of the obligation, removing both the receivable and the obligation related to the financing from the Consolidated Financial Statements. As at December 31, 2020, draws related to project financing were $20 million (December 31, 2019 - $71 million).

Other Credit Facilities

As at December 31, 2020, the AltaGas held a $70 million (December 31, 2019 - $70 million) unsecured demand revolving operating credit facility with a Canadian chartered bank. Draws on the facility bear interest at the lender's prime rate or at the bankers' acceptance rate plus a stamping fee. Letters of credit outstanding under this facility as at December 31, 2020 were $nil (December 31, 2019 - $nil).

As at December 31, 2020, AltaGas held a $150 million (December 31, 2019 - $150 million) unsecured four-year extendible revolving letter of credit facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances, or letters of credit. Letters of credit outstanding under this facility as at December 31, 2020 were $nil (December 31, 2019 - $26 million).

As at December 31, 2020, AltaGas held a US$200 million (December 31, 2019 - US$200 million) unsecured bilateral letter of credit demand facility with a Canadian chartered bank. Borrowings on the facility incur fees and interest at rates relevant to the nature of the draws made. Letters of credit outstanding under this facility as at December 31, 2020 were $190 million (December 31, 2019 - $156 million).

As at December 31, 2020, AltaGas held a US$1.2 billion (December 31, 2019 - US$1.2 billion) unsecured revolving credit facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances, or letters of credit. There were no outstanding bank loans under this facility as at December 31, 2020 or December 31, 2019.

During the year ended December 31, 2020, AltaGas cancelled a US$300 million unsecured extendible revolving letter of credit facility.

WGL and Washington Gas use short-term debt in the form of commercial paper and advances under its syndicated bank credit facilities to fund seasonal cash requirements. Revolving committed credit facilities are maintained in an amount equal to or greater than the expected maximum commercial paper position. As at December 31, 2020, commercial paper outstanding classified as short-term debt totaled $236 million (December 31, 2019 - $389 million).

Credit Facilities Acquired in Petrogas Acquisition

As at December 31, 2020, Petrogas held a $30 million revolving letter of credit facility. Letters of credit outstanding under this facility as at December 31, 2020 were $22 million.

As at December 31, 2020, Petrogas held an operating facility of US$15 million. There were no letters of credit outstanding under this facility as at December 31, 2020.

As at December 31, 2020, Petrogas held a US$40 million seasonal bulge facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances, or letters of credit. There were no outstanding bank loans under this facility as at December 31, 2020.

16. Long-Term Debt

As at	Maturity date	December 31, 2020	December 31, 2019
Credit facilities			
$1,400 million unsecured extendible revolving facility [(a)]	15-May-2023	**$ 802**	$ 90
US$300 million unsecured extendible revolving facility	27-Feb-2021	**—**	390
US$150 million unsecured extendible revolving facility	20-Dec-2023	**81**	163
Commercial paper [(b)]	Various	**260**	367
$175 million secured extendible revolving facility	18-Jun-2022	**51**	—
AltaGas Ltd. medium-term notes (MTNs)			
$200 million Senior unsecured - 4.07 percent	1-Jun-2020	**—**	200
$350 million Senior unsecured - 3.72 percent	28-Sep-2021	**350**	350
$500 million Senior unsecured - 2.61 percent	16-Dec-2022	**500**	500
$300 million Senior unsecured - 3.57 percent	12-Jun-2023	**300**	300
$200 million Senior unsecured - 4.40 percent	15-Mar-2024	**200**	200
$300 million Senior unsecured - 3.84 percent	15-Jan-2025	**300**	300
$500 million Senior unsecured - 2.16 percent	10-Jun-2025	**500**	—
$350 million Senior unsecured - 4.12 percent	7-Apr-2026	**350**	350
$200 million Senior unsecured - 3.98 percent	4-Oct-2027	**200**	200
$500 million Senior unsecured - 2.08 percent	30-May-2028	**500**	—
$200 million Senior unsecured - 2.48 percent	30-Nov-2030	**200**	—
$100 million Senior unsecured - 5.16 percent	13-Jan-2044	**100**	100
$300 million Senior unsecured - 4.50 percent	15-Aug-2044	**300**	300
$250 million Senior unsecured - 4.99 percent	4-Oct-2047	**250**	250
WGL and Washington Gas MTNs			
US$250 million Senior unsecured - 2.44 percent [(c)]	12-Mar-2020	**—**	325
US$20 million Senior unsecured - 6.65 percent	20-Mar-2023	**25**	26
US$41 million Senior unsecured - 5.44 percent	11-Aug-2025	**52**	53
US$53 million Senior unsecured - 6.62 to 6.82 percent	Oct 2026	**67**	69
US$72 million Senior unsecured - 6.40 to 6.57 percent	Feb - Sep 2027	**92**	93
US$52 million Senior unsecured - 6.57 to 6.85 percent	Jan - Mar 2028	**66**	67
US$9 million Senior unsecured - 7.50 percent	1-Apr-2030	**11**	11
US$50 million Senior unsecured - 5.70 to 5.78 percent	Jan - Mar 2036	**64**	65
US$75 million Senior unsecured - 5.21 percent	3-Dec-2040	**95**	97
US$75 million Senior unsecured - 5.00 percent	15-Dec-2043	**95**	97
US$300 million Senior unsecured - 4.22 to 4.60 percent	Sep - Nov 2044	**382**	390
US$450 million Senior unsecured - 3.80 percent	15-Sep-2046	**573**	584
US$400 million Senior unsecured - 3.65 percent [(d)]	15-Sep-2049	**530**	390
SEMCO long-term debt			
US$300 million SEMCO Senior Secured - 5.15 percent [(e)]	21-Apr-2020	**—**	390
US$82 million SEMCO Senior Secured - 4.48 percent [(f)]	2-Mar-2032	**69**	76
US$225 million First Mortgage Bonds - 3.15 percent	21-Apr-2030	**286**	—
US$225 million First Mortgage Bonds - 2.45 percent	21-Apr-2050	**286**	—
Fair value adjustment on WGL Acquisition		**80**	84
Finance lease liabilities *(note 10)*		**12**	10
		$ 8,029	$ 6,887
Less debt issuance costs		**(43)**	(36)
		$ 7,986	$ 6,851
Less current portion		**(360)**	(923)
		$ 7,626	$ 5,928

(a) Borrowings on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances, or letters of credit. Borrowings on the facility have fees and interest at rates relevant to the nature of the draw made.

(b) Commercial paper is supported by the availability of long-term committed credit facilities with maturity dates ranging from 2022 to 2024. Commercial paper intended to be repaid within the next year is recorded as short-term debt (Note 15).

(c) Floating rate per annum reset quarterly based on terms set forth in the prospectus filed by WGL pursuant to *Securities Act* Rule 424 on March 13, 2018.

(d) On December 10, 2020, Washington Gas issued MTNs with an aggregate principal amount of $100 million. This offering constituted the reopening of it's $300 million MTNs originally issued in 2019. The total includes a US$17 million premium which will be amortized as a reduction to interest expense over the term of the note.

(e) Collateral for the U.S. dollar MTNs is certain SEMCO assets.

(f) Collateral for the CINGSA Senior secured loan is certain CINGSA assets. Alaska Storage Holding Company, LLC, a subsidiary in which AltaGas has a controlling interest, is the non-recourse guarantor of this loan.

Other Credit Facilities

As at December 31, 2020, AltaGas held a US$300 million (December 31, 2019 - US$300 million) unsecured revolving credit facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, or letters of credit. There were no outstanding bank loans under this facility as at December 31, 2020 or December 31, 2019.

As at December 31, 2020, WGL held a US$250 million (December 31, 2019 - US$250 million) unsecured revolving credit facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers’ acceptances, or letters of credit. There were no outstanding bank loans under this facility as at December 31, 2020 or December 31, 2019.

As at December 31, 2020, Washington Gas held a US$450 million (December 31, 2019 - US$450 million) unsecured revolving credit facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers’ acceptances, or letters of credit. There were no outstanding bank loans under this facility as at December 31, 2020 or December 31, 2019.

WGL and Washington Gas use short-term debt in the form of commercial paper and advances under its syndicated bank credit facilities to fund seasonal cash requirements. Revolving committed credit facilities are maintained in an amount equal to or greater than the expected maximum commercial paper position. As at December 31, 2020, outstanding commercial paper classified as long-term debt totaled $260 million (December 31, 2019 - $367 million).

Credit Facilities Acquired in Petrogas Acquisition

As at December 31, 2020, Petrogas held a $175 million secured extendible revolving letter of credit facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers’ acceptances, or letters of credit. Loans and letters of credit outstanding under this facility as at December 31, 2020 were $57 million.

As at December 31, 2020, Petrogas held a US$10 million operating revolving letter of credit facility. Letters of credit outstanding under this facility as at December 31, 2020 were $nil.

As at December 31, 2020, Petrogas held a $25 million revolving letter of credit facility. Draws on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers’ acceptances, or letters of credit. There were no outstanding bank loans under this facility as at December 31, 2020.

17. Asset Retirement Obligations

As at December 31		2020		2019
Balance, beginning of year	**$**	**362**	$	500
Obligations acquired *(note 3)*		**13**		—
New obligations		**14**		7
Obligations settled		**(4)**		(2)
Disposals		**(1)**		(6)
Revision in estimated cash flow		**(10)**		(129)
Accretion expense [(a)]		**17**		19
Foreign exchange translation		**(6)**		(21)
Total	**$**	**385**	$	368
Less: current portion (included in accounts payable and accrued liabilities)		**(6)**		(6)
Balance, end of year	**$**	**379**	$	362

(a) Certain amounts relating to Utility asset retirement obligations are recorded through regulatory assets or liabilities on the Consolidated Balance Sheets due to regulatory treatment. The remaining portion is recorded through the Consolidated Statements of Income.

The majority of the asset retirement obligations are associated with distribution and transmission systems in the Utilities segment.

AltaGas estimates the undiscounted cash required to settle the asset retirement obligations, excluding growth for inflation, at December 31, 2020 was $816 million (December 31, 2019 - $727 million).

The asset retirement obligations have been recorded in the Consolidated Financial Statements at estimated values discounted at rates between 2.0 and 8.5 percent (December 31, 2019 - between 2.0 to 8.5 percent) and are expected to be incurred between 2021 and 2138 (December 31, 2019 - between 2020 and 2137). No assets have been legally restricted for settlement of the estimated liability.

18. Environmental Matters

AltaGas is subject to federal, provincial, state and local laws and regulations related to environmental matters. These laws and regulations may require expenditures over a long time frame to control environmental effects. Almost all of the environmental liabilities AltaGas has recorded are for costs expected to be incurred to remediate sites where AltaGas or a predecessor affiliate operated manufactured gas plants (MGPs). Estimates of liabilities for environmental response costs are difficult to determine with precision because of the various factors that can affect their ultimate level. These factors include, but are not limited to, the following:

- the complexity of the site;
- changes in environmental laws and regulations at the federal, state, and local levels;
- the number of regulatory agencies or other parties involved;
- new technology that renders previous technology obsolete or experience with existing technology that proves ineffective;
- the level of remediation required; and
- variations between the estimated and actual period of time that must be dedicated to respond to an environmentally-contaminated site.

AltaGas has identified up to twelve sites where it or its predecessors may have operated MGPs. In connection with these operations, AltaGas is aware that coal tar and certain other by-products of the gas manufacturing process are present at or near some former sites and may be present at others.

As at December 31, 2020, a liability of $13 million has been recorded on an undiscounted basis related to future environmental response costs (December 31, 2019 - $14 million) in the Consolidated Balance Sheets under the line items "accounts payable and accrued liabilities and other long-term liabilities". These estimates principally include the minimum liabilities associated with a range of environmental response costs expected to be incurred. As at December 31, 2020, AltaGas estimated the maximum liability associated with all of its sites to be approximately $39 million (December 31, 2019 - $40 million). The estimates were determined by AltaGas' environmental experts, based on experience in remediating MGP sites and advice from legal counsel and environmental consultants. The variation between the recorded and estimated maximum liability primarily results from differences in the number of years that will be required to perform environmental response processes and the extent of remediation that may be required.

As at December 31, 2020, AltaGas reported a regulatory asset of $15 million (December 31, 2019 - $18 million) for the portion of environmental response costs that are expected to be recoverable in future rates (Note 21).

19. Other Long-term Liabilities

As at		**December 31, 2020**		December 31, 2019
Deferred revenue	**$**	**8**	$	4
Customer advances for construction		**60**		64
Merger commitments		**10**		14
Other employee benefits		**6**		6
Deferred payroll taxes [(a)]		**6**		—
Petrogas equalization reserve [(b)]		**5**		—
Uncertain tax positions *(note 20)*		**21**		2
Non-pension retirement benefits		**16**		—
Other		**21**		12
	$	**153**	$	102

(a) Represents U.S. federal payroll tax deferrals from the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

(b) Reserve is held by a wholly owned subsidiary of Petrogas.

20. Income Taxes

Year Ended December 31		2020		2019
Income before income taxes - consolidated	**$**	**699**	$	812
Statutory income tax rate (%)		**24.0**		26.5
Expected taxes at statutory rates	**$**	**168**	$	215
Add (deduct) the tax effect of:				
Permanent differences	**$**	**2**	$	11
Statutory and other rate differences		**9**		(52)
Rate adjustment for change in tax rates		**—**		(11)
Deferred income tax recovery on regulated assets		**(15)**		(25)
Tax differences on divestitures and transactions		**(33)**		(159)
Change in valuation allowance		**(2)**		(11)
Other		**(2)**		4
	$	**127**	$	(28)
Income tax provision				
Current	**$**	**1**	$	63
Deferred		**126**		(91)
	$	**127**	$	(28)
Effective income tax rate (%)		**18.2**		(3.4)

Net deferred income tax liabilities were composed of the following:

As at		December 31, 2020		December 31, 2019
PP&E and intangible assets	**$**	**1,645**	$	1,450
Regulatory assets		**(229)**		(204)
Tax pools, deferred financing, and compensation		**(208)**		(138)
Other		**(94)**		(161)
Valuation allowance		**4**		12
	$	**1,118**	$	959

The amount shown on the Consolidated Balance Sheets as deferred income tax liabilities represents the net differences between the tax basis and book carrying values on the Corporation's balance sheets at enacted tax rates.

The Alberta government passed the Job Creation Tax Cut in 2019 which reduced Alberta's corporate tax rate from 12 percent to 11 percent on July 1, 2019. The tax rate was further reduced from 11 percent to 8 percent on July 1, 2020.

As at December 31, 2020, the Corporation had tax-effected non-capital losses of approximately $293 million, which will be available to offset future taxable income. If not used, these losses will expire between 2023 and 2040.

Uncertain Tax Positions

The Corporation recognizes the benefit of an uncertain tax position only when it is more likely than not that such a position will be sustained by the taxing authorities based on the technical merits of the position. The current and deferred tax impact is equal to the largest amount, considering possible settlement outcomes, that has greater than 50 percent likelihood of being realized upon settlement with the taxing authorities.

On an annual basis, the Corporation and its subsidiaries file tax returns in Canada and various foreign jurisdictions. In Canada, AltaGas' federal and provincial tax returns for the years 2013 to 2019 remain subject to examination by taxation authorities. In the United States, both the federal and state tax returns for the years 2016 to 2019 remain subject to examination by the taxation authorities.

Management determined that the following provision was required for uncertainty on income taxes during the year:

Year ended December 31	**2020**	2019
Balance, beginning of year	**$ 2**	$ 2
Gross increases for tax positions of prior year	**21**	—
Lapses of statute of limitations	**(2)**	—
Balance, end of year	**$ 21**	$ 2

21. Regulatory Assets and Liabilities

AltaGas accounts for certain transactions in accordance with ASC 980, Regulated Operations. AltaGas refers to this accounting guidance for regulated entities as “regulatory accounting”. Under regulatory accounting, utilities are permitted to defer expenses and income as regulatory assets and liabilities, respectively, in the Consolidated Balance Sheets when it is probable that those expenses and income will be allowed in the rate-setting process in a period different from the period in which they would have been reflected in the Consolidated Statements of Income by a non-rate-regulated entity. These deferred regulatory assets and liabilities are included in the Consolidated Statements of Income in future periods when the amounts are reflected in customer rates. If an application is filed to modify customer rates with certain regulatory commissions, AltaGas is permitted to charge customers new rates, subject to refund, until the regulatory commission renders a final decision. During this interim period, a provision is recorded for a rate refund regulatory liability based on the difference between the amount collected in rates and the amount expected to be recovered from a final regulatory decision.

Management’s assessment of the probability of recovery or pass-through of regulatory assets and liabilities requires judgment and interpretation of laws and regulatory agency orders, rules, and rate-making conventions. The relevant regulatory bodies are the MPSC, RCA, PSC of DC, PSC of MD, and SCC of VA.

If, for any reason, the Corporation ceases to meet the criteria for application of regulatory accounting for all or part of its operations, the regulatory assets and liabilities related to those portions ceasing to meet such criteria would be de-recognized from the Consolidated Balance Sheets and included in the Consolidated Statements of Income for the period in which the discontinuance of regulatory accounting occurs. Criteria that give rise to the discontinuance of regulatory accounting include: (i) increasing competition that restricts the ability of the Corporation to charge prices sufficient to recover specific costs, and (ii) a significant change in the manner in which rates are set by regulatory agencies from cost-based regulation to another form of regulation. The Corporation’s review of these criteria currently supports the continued application of regulatory accounting for all its utilities.

The following table summarizes the regulatory assets and liabilities recorded in the Consolidated Balance Sheets, as well as the remaining period, as at December 31, 2020 and 2019, over which the Corporation expects to realize or settle the assets or liabilities:

As at December 31		2020		2019	Recovery Period
Regulatory assets - current					
Deferred cost of gas [(a)]	**$**	**18**	$	8	Less than one year
Accelerated replacement recovery mechanisms [(b)]		**6**		2	Less than one year
Interruptible sharing [(a)]		**2**		3	Less than one year
Energy optimization costs		**1**		—	Less than one year
Virginia and Maryland revenue normalization [(a)]		**19**		—	Less than one year
	$	**46**	$	13	
Regulatory assets - non-current					
Deferred regulatory costs [(a) (c)]	**$**	**158**	$	150	2 - 55 years
Future recovery of pension and other retirement benefits [(a)]		**68**		128	Various
Future recovery of non-retirement employee benefits [(a) (d)]		**22**		19	Various
Deferred environmental costs [(a) (e)]		**15**		18	Various
Deferred loss on debt transactions and derivative instruments [(a) (f)]		**93**		99	Various
Deferred future income taxes [(a) (g)]		**46**		43	Various
Energy efficiency program - Maryland [(h)]		**18**		12	Various
COVID-19 costs [(i)]		**10**		—	Various
Other		**14**		18	Various
	$	**444**	$	487	
Regulatory liabilities - current					
Deferred cost of gas [(a)]	**$**	**56**	$	61	Less than one year
Refundable tax credit [(j)]		**2**		2	Less than one year
Federal income tax rate change [(k)]		**20**		33	Less than one year
Virginia rate refund [(l)]		**—**		41	Less than one year
Interruptible sharing [(a)]		**1**		—	Less than one year
Virginia Coronavirus Relief Fund [(m)]		**10**		—	Less than one year
Other		**1**		9	Less than one year
	$	**90**	$	146	
Regulatory liabilities - non-current					
Refundable tax credit [(j)]		**2**		4	2 years
Future expense of pension and other retirement benefits [(a)]		**335**		261	Various
Future removal and site restoration costs [(n)]		**462**		484	Various
Deferred gain on debt transactions and derivative instruments [(a) (f)]		**1**		2	Various
Federal income tax rate change [(k)]		**578**		628	Various
Other		**3**		4	Various
	$	**1,381**	$	1,383	

(a) Washington Gas is not entitled to a rate of return on these assets. Washington Gas is allowed to recover and required to pay, using short-term interest rates, the carrying costs related to billed gas costs due from and to its customers in the District of Columbia and Virginia jurisdictions.

(b) Represents amounts for deferred over or under collections of surcharges associated with Washington Gas' accelerated pipeline recovery programs in the District of Columbia, Maryland, and Virginia.

(c) Includes deferred gas costs and fair value of derivatives, which are not included in customer bills until settled.

(d) Represents the timing difference between the recognition of workers compensation and short-term disability costs in accordance with generally accepted accounting principles and the way these costs are recovered through rates. Certain utilities have recovered pension costs related to regulated operations in rates, and as such, the Corporation has recorded a regulatory asset for the unamortized costs associated with the defined benefit and post-retirement benefit plans. Depending on the method utilized by the utility, the recovery period can be either the expected service life of the employees, the benefit period for employees, or a specific recovery period as approved by the respective regulator.

(e) This balance represents allowed environmental remediation expenditures at SEMCO and Washington Gas sites to be recovered through rates.

(f) The losses or gains on the issuance and extinguishment of debt and interest-rate derivative instruments include unamortized balances from transactions executed in prior years. These transactions create gains and losses that are amortized over the remaining life of the debt as prescribed by regulatory accounting requirements. As at December 31, 2020, this also includes a fair value adjustment of $76 million (December 31, 2019 - $80 million) recorded on the WGL Acquisition in 2018.

(g) This balance represents amounts due from customers for deferred tax assets and liabilities related to tax benefits/expenses on deductions flowed directly to customers prior to the adoption of income tax normalizations for ratemaking purposes and to tax rate changes.

(h) Represents amounts for deferred credits associated with Washington Gas' participation in the energy conservation and efficiency program EmPower in Maryland.

(i) Regulatory assets established to capture and track incremental COVID-19 related costs.

(j) On September 18, 2013, CINGSA received a US$15 million gas storage facility tax credit from the State of Alaska for the benefit of its firm storage service customers. CINGSA will derive no direct or indirect benefit from the tax credit. Following receipt of the tax credit, CINGSA deposited it in a separate interest-bearing account. CINGSA will act as a custodian of the tax credit and any interest earned for the benefit of CINGSA's customers. On an annual basis, covering the years 2012 through 2021, CINGSA will disburse to the customers 1/10th of the amount of the tax credit not subject to refund to the State and interest earned. The RCA has approved the disbursement methodology.

(k) The *Tax Cuts and Jobs Act* (TCJA) was enacted on December 22, 2017, and required the Corporation to revalue its U.S. deferred tax assets and liabilities in 2018 to the lower federal corporate tax rate of 21 percent, resulting in excess accumulated deferred income taxes. The tax rate reduction created a reduction in deferred tax liability, which SEMCO Gas and Washington Gas are required to refund to ratepayers.

(l) Represents estimated refunds related to customers billed at a higher rate during the interim period as part of the 2019 Virginia rate case.

(m) The Virginia Coronavirus Relief Fund was received by WGL to provide direct assistance to Virginia customers with balances over 30 days in arrears.

(n) This amount and timing of draw down is dependent upon the cost of removal of underlying utility property, plant and equipment and the life of property, plant and equipment.

22. Accumulated Other Comprehensive Income

($ millions)	Defined benefit pension and PRB plans	Hedge net investments	Translation foreign operations	Equity investee	Total
Opening balance, January 1, 2020	**$ (6)**	**$ (149)**	**$ 395**	**$ 5**	**$ 245**
OCI before reclassification	**(11)**	**(10)**	**(175)**	**(5)**	**(201)**
Amounts reclassified from OCI	**3**	**—**	**—**	**—**	**3**
Current period OCI (pre-tax)	**(8)**	**(10)**	**(175)**	**(5)**	**(198)**
Income tax on amounts retained in AOCI	**3**	**1**	**—**	**—**	**4**
Income tax on amounts reclassified to earnings	**(1)**	**—**	**—**	**—**	**(1)**
Net current period OCI	**(6)**	**(9)**	**(175)**	**(5)**	**(195)**
Ending balance, December 31, 2020	**$ (12)**	**$ (158)**	**$ 220**	**$ —**	**$ 50**
Opening balance, January 1, 2019	$ (19)	$ (209)	$ 801	$ 6	$ 579
OCI before reclassification	15	68	(406)	(1)	(324)
Amounts reclassified from OCI	1	—	—	—	1
Current period OCI (pre-tax)	16	68	(406)	(1)	(323)
Income tax on amounts retained in AOCI	(3)	(8)	—	—	(11)
Net current period OCI	13	60	(406)	(1)	(334)
Ending balance, December 31, 2019	$ (6)	$ (149)	$ 395	$ 5	$ 245

Reclassification From Accumulated Other Comprehensive Income

AOCI components reclassified	Income statement line item	**Year Ended December 31, 2020**	Year Ended December 31, 2019
Defined benefit pension and PRB plans	Other income	**$ 3**	$ 1
Deferred income taxes	Income tax expense – deferred	**(1)**	—
		$ 2	$ 1

23. Financial Instruments and Financial Risk Management

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, risk management contracts, certain long-term investments and other assets, accounts payable and accrued liabilities, dividends payable, short-term and long-term debt and certain other current and long-term liabilities.

Fair Value Hierarchy

AltaGas categorizes its financial assets and financial liabilities into one of three levels based on fair value measurements and inputs used to determine the fair value.

Level 1 - fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Fair values are based on direct observations of transactions involving the same assets or liabilities and no assumptions are used. Included in this category are publicly traded shares valued at the closing price as at the balance sheet date.

Level 2 - fair values are determined based on valuation models and techniques where inputs other than quoted prices included within Level 1 are observable for the asset or liability either directly or indirectly. AltaGas enters into derivative instruments in the futures, over-the-counter and retail markets to manage fluctuations in commodity prices and foreign exchange rates. The fair values of power, natural gas, NGL, LPG, ocean freight, and oil derivative contracts were calculated using forward prices based on published sources for the relevant period, adjusted for factors specific to the asset or liability, including basis and location differentials, discount rates, and currency exchange. The fair value of foreign exchange derivative contracts was calculated using quoted market rates. The fair value of foreign exchange option contracts were calculated using a variation of the Black-Scholes pricing model.

Level 3 - fair values are based on inputs for the asset or liability that are not based on observable market data. AltaGas uses valuation techniques when observable market data is not available. Level 3 derivatives include physical contracts at illiquid market locations with no observable market data, long-dated positions where observable pricing is not available over the life of the contract, contracts valued using historical spot price volatility assumptions, and valuations using indicative broker quotes for inactive market locations. A significant change to any one of these inputs in isolation could result in a significant upward or downward fluctuation in the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments:

Other current liabilities - the carrying amounts approximate fair value because of the short maturity of these instruments.

Current portion of long-term debt, Long-term debt and Other long-term liabilities - the fair value of these liabilities was estimated based on discounted future interest and principal payments using the current market interest rates of instruments with similar terms.

Risk management assets and liabilities - the fair values of power, natural gas and NGL, LPG, ocean freight, and oil derivative contracts were calculated using forward prices from published sources for the relevant period. The fair value of foreign exchange derivative contracts was calculated using quoted market rates. The fair value of Level 3 derivative contracts was calculated using internally developed valuation inputs and pricing models.

Equity securities – the fair value of equity securities was calculated using quoted market prices.

Loans and receivables – the fair value of these assets was estimated based on discounted future interest and principal payments using the current market interest rates of instruments with similar terms.

As at	December 31, 2020				
	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial assets					
Fair value through net income [(a)]					
Risk management assets - current	$ 94	$ —	$ 73	$ 21	$ 94
Risk management assets - non-current	38	—	2	36	38
Fair value through regulatory assets [(a)]					
Risk management assets - current	4	—	1	3	4
Risk management assets - non-current	9	—	—	9	9
	$ 145	$ —	$ 76	$ 69	$ 145
Financial liabilities					
Fair value through net income [(a)]					
Risk management liabilities - current	$ 102	$ —	$ 78	$ 24	$ 102
Risk management liabilities - non-current	66	—	15	51	66
Fair value through regulatory liabilities [(a)]					
Risk management liabilities - current	9	—	—	9	9
Risk management liabilities - non-current	79	—	1	78	79
Amortized cost					
Current portion of long-term debt	360	—	360	—	360
Long-term debt	7,626	—	8,451	—	8,451
Other current liabilities [(b)]	37	—	37	—	37
	$ 8,279	$ —	$ 8,942	$ 162	$ 9,104

(a) To manage price risk associated with acquiring natural gas supply for Maryland, Virginia, and District of Columbia utility customers, Washington Gas, a subsidiary of the Corporation, enters into physical and financial derivative transactions. Any gains and losses associated with these derivatives are recorded as regulatory liabilities or assets, respectively, to reflect the rate treatment for these economic hedging activities. Additionally, as part of its asset optimization program, Washington Gas enters into derivatives with the primary objective of securing operating margins that Washington Gas will ultimately realize. Regulatory sharing mechanisms provide for the annual realized profit from these transactions to be shared between Washington Gas' shareholder and customers; therefore, changes in fair value are recorded through earnings, or as regulatory assets or liabilities to the extent that it is probable that realized gains and losses associated with these derivative transactions will be included in the rates charged to customers when they are realized.

(b) Excludes non-financial liabilities.

As at	December 31, 2019				
	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial assets					
Fair value through net income[a]					
Risk management assets - current	$ 82	$ —	$ 31	$ 51	$ 82
Risk management assets - non-current	31	—	7	24	31
Equity securities[b]	4	4	—	—	4
Fair value through regulatory assets [a]					
Risk management assets - current	5	—	—	5	5
Risk management assets - non-current	8	—	—	8	8
Amortized cost					
Loans and receivables [b]	45	—	46	—	46
	$ 175	$ 4	$ 84	$ 88	$ 176
Financial liabilities					
Fair value through net income[a]					
Risk management liabilities - current	$ 121	$ —	$ 99	$ 22	$ 121
Risk management liabilities - non-current	77	—	19	58	77
Fair value through regulatory liabilities [a]					
Risk management liabilities - current	4	—	1	3	4
Risk management liabilities - non-current	90	—	—	90	90
Amortized cost					
Current portion of long-term debt	923	—	923	—	923
Long-term debt	5,928	—	6,264	—	6,264
Other current liabilities [c]	15	—	15	—	15
	$ 7,158	$ —	$ 7,321	$ 173	$ 7,494

(a) To manage price risk associated with acquiring natural gas supply for Maryland, Virginia, and District of Columbia utility customers, Washington Gas, a subsidiary of the Corporation, enters into physical and financial derivative transactions. Any gains and losses associated with these derivatives are recorded as regulatory liabilities or assets, respectively, to reflect the rate treatment for these economic hedging activities. Additionally, as part of its asset optimization program, Washington Gas enters into derivatives with the primary objective of securing operating margins that Washington Gas will ultimately realize. Regulatory sharing mechanisms provide for the annual realized profit from these transactions to be shared between Washington Gas' shareholder and customers; therefore, changes in fair value are recorded through earnings, or as regulatory assets or liabilities to the extent that it is probable that realized gains and losses associated with these derivative transactions will be included in the rates charged to customers when they are realized.

(b) Included under the line item "long-term investments and other assets" on the Consolidated Balance Sheets.

(c) Excludes non-financial liabilities.

Financial assets and liabilities not included in the fair value hierarchy table include money market funds, short term debt, commercial paper, and a long-term receivable (Note 12). The carrying value of these financial instruments approximate their fair value, which reflects the short-term maturity and/or normal credit terms of these financial instruments.

The following table includes quantitative information about the significant unobservable inputs used in the fair value measurement of Level 3 financial instruments as at December 31, 2020:

	Net Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average [a]
Natural gas	$ (73)	Discounted Cash Flow	Natural Gas Basis Price (per Dth)	$ (1.27) - $ 2.64	$ (0.37)
Natural gas	$ (1)	Option Model	Natural Gas Basis Price (per Dth)	$ (1.27) - $ 2.58	$ (0.01)
			Annualized Volatility of Spot Market Natural Gas	13 % - 917 %	73 %
Electricity	$ (19)	Discounted Cash Flow	Electricity Congestion Price (per MWh)	$ (6.26) - $61.88	$ 13.57

(a) Unobservable inputs were weighted by transaction volume.

The following tables provide a reconciliation of changes in net fair value of derivative assets and liabilities classified as Level 3 in the fair value hierarchy:

For the year ended December 31	2020			2019		
	Natural Gas	**Electricity**	**Total**	Natural Gas	Electricity	Total
Balance, beginning of year	**$ (85)**	**$ —**	**$ (85)**	$ (149)	$ (14)	$ (163)
Realized and unrealized gains (losses):						
Recorded in income	**8**	**(55)**	**(47)**	48	1	49
Recorded in regulatory assets	**(1)**	**—**	**(1)**	24	—	24
Transfers into Level 3	**(1)**	**—**	**(1)**	(9)	—	(9)
Transfers out of Level 3	**1**	**—**	**1**	12	—	12
Purchases	**—**	**3**	**3**	—	(11)	(11)
Settlements	**4**	**32**	**36**	(17)	24	7
Foreign exchange translation	**—**	**1**	**1**	6	—	6
Balance, end of year	**$ (74)**	**$ (19)**	**$ (93)**	$ (85)	$ —	$ (85)

Transfers between different levels of the fair value hierarchy may occur based on fluctuations in the valuation and on the level of observable inputs used to value the instruments from period to period. Transfers into and out of the different levels of the fair value hierarchy are presented at the fair value as of the beginning of the period. Transfers out of Level 3 during the year ended December 31, 2020 were due to an increase in valuations using observable market inputs. Transfers into Level 3 during the year ended December 31, 2020 were due to an increase in unobservable market inputs used in valuations.

Realized and Unrealized Gains (Losses) Recorded to Income for Level 3 Measurements

Year Ended December 31	2020	2019
Recorded to revenue	**$ (79)**	$ 75
Recorded to cost of sales	**32**	(26)
	$ (47)	$ 49

Summary of Unrealized Gains (Losses) on Risk Management Contracts Recognized in Net Income

Year Ended December 31	2020	2019
Natural gas	**$ 32**	$ 23
Energy exports	**10**	(87)
Crude oil and NGLs	**4**	—
NGL frac spread	**(5)**	(17)
Power	**(15)**	(5)
Foreign exchange	**(5)**	1
	$ 21	$ (85)

Offsetting of Derivative Assets and Derivative Liabilities

Certain of AltaGas' risk management contracts are subject to master netting arrangements that create a legally enforceable right for a counterparty to offset the related financial assets and financial liabilities. As part of these master netting agreements, cash, letters of credit and parental guarantees may be required to be posted or obtained from counterparties in order to mitigate credit risk related to both derivative and non-derivative positions. Collateral balances are also offset against the related counterparties' derivative positions to the extent the application would not result in the over-collateralization of those derivative positions on the balance sheet.

As at	December 31, 2020			
	Gross amounts of recognized assets/liabilities	**Gross amounts offset in balance sheet**	**Netting of collateral**	**Net amounts presented in balance sheet**
Risk management assets [a]				
Natural gas	**$ 104**	**$ (38)**	**$ (3)**	**$ 63**
Energy exports	**86**	**(86)**	**36**	**36**
Crude oil and NGLs	**1**	**—**	**—**	**1**
Power	**30**	**(8)**	**—**	**22**
Foreign exchange	**27**	**(3)**	**(1)**	**23**
	$ 248	**$ (135)**	**$ 32**	**$ 145**
Risk management liabilities [b]				
Natural gas	**$ 173**	**$ (38)**	**$ (3)**	**$ 132**
Energy exports	**153**	**(86)**	**—**	**67**
NGL frac spread	**6**	**—**	**—**	**6**
Power	**58**	**(8)**	**1**	**51**
Foreign exchange	**3**	**(3)**	**—**	**—**
	$ 393	**$ (135)**	**$ (2)**	**$ 256**

(a) Net amount of risk management assets on the Balance Sheet is comprised of risk management assets (current) balance of $98 million and risk management assets (non-current) balance of $47 million.

(b) Net amount of risk management liabilities on the Balance Sheet is comprised of risk management liabilities (current) balance of $111 million and risk management liabilities (non-current) balance of $145 million.

As at	December 31, 2019			
	Gross amounts of recognized assets/liabilities	Gross amounts offset in balance sheet	Netting of collateral	Net amounts presented in balance sheet
Risk management assets [a]				
Natural gas	$ 121	$ (54)	$ —	$ 67
Energy exports	10	(3)	5	12
Power	54	(7)	—	47
	$ 185	$ (64)	$ 5	$ 126
Risk management liabilities [b]				
Natural gas	$ 226	$ (54)	$ (28)	$ 144
Energy exports	90	(3)	—	87
NGL frac spread	2	—	—	2
Power	69	(7)	(3)	59
	$ 387	$ (64)	$ (31)	$ 292

(a) Net amount of risk management assets on the Balance Sheet is comprised of risk management assets (current) balance of $87 million and risk management assets (non-current) balance of $39 million.

(b) Net amount of risk management liabilities on the Balance Sheet is comprised of risk management liabilities (current) balance of $125 million and risk management liabilities (non-current) balance of $167 million.

Cash Collateral

The following table presents collateral not offset against risk management assets and liabilities:

As at	**December 31, 2020**	December 31, 2019
Collateral posted with counterparties	**$ 4**	$ 29
Cash collateral held representing an obligation	**$ —**	$ —

Any collateral posted that is not offset against risk management assets and liabilities is included in line item “prepaid expenses and other current assets” in the Consolidated Balance Sheets. Collateral received and not offset against risk management assets and liabilities is included in line item “customer deposits” in the Consolidated Balance Sheets.

Certain derivative instruments contain contract provisions that require collateral to be posted if the credit rating of AltaGas or certain of its subsidiaries falls below certain levels. At December 31, 2020, AltaGas has posted $nil (December 31, 2019 - $6 million) of collateral related to its derivative liabilities that contained credit-related contingent features. The following table shows the aggregate fair value of all derivative instruments with credit-related contingent features that are in a liability position, as well as the maximum amount of collateral that would be required if specific credit-risk-related contingent features underlying these agreements were triggered:

As at	**December 31, 2020**	December 31, 2019
Risk management liabilities with credit-risk-contingent features	**$ 32**	$ 42
Maximum potential collateral requirements	**$ 26**	$ 29

Risks associated with financial instruments

AltaGas is exposed to various financial risks in the normal course of operations such as market risks resulting from fluctuations in commodity prices, currency exchange rates and interest rates as well as credit risk and liquidity risk.

Commodity Price Risk

AltaGas enters into financial derivative contracts to manage exposure to fluctuations in commodity prices. The use of derivative instruments is governed under formal risk management policies and is subject to parameters set out by AltaGas' Risk Management Committee and Board of Directors. AltaGas does not make use of derivative instruments for speculative purposes.

Natural Gas

In the normal course of business, AltaGas purchases and sells natural gas to support its infrastructure business. The fixed price and market price contracts for both the purchase and sale of natural gas extend to 2040. In addition, AltaGas may enter into financial derivative contracts as part of WGL's asset optimization program. WGL optimized the value of its long-term natural gas transportation and storage capacity resources during periods when these resources are not being used to physically serve utility customers.

AltaGas had the following forward contracts and commodity swaps outstanding related to the activities in the energy services business as at December 31, 2020 and 2019:

December 31, 2020	**Fixed price (per GJ)**	**Period (months)**	**Notional volume (GJ)**	**Fair Value**
Sales	**1.58 to 7.86**	**1-157**	**590,054,996**	**$ 32**
Purchases	**1.58 to 6.47**	**1-240**	**1,522,958,497**	**$ (106)**
Swaps	**2.29 to 7.86**	**1-60**	**288,613,586**	**$ 5**

December 31, 2019	Fixed price (per GJ)	Period (months)	Notional volume (GJ)	Fair Value
Sales	1.32 to 6.81	1-166	698,126,985	$ 29
Purchases	0.22 to 6.81	1-167	1,406,991,689	$ (104)
Swaps	0.22 to 10.24	1-51	541,652,374	$ (2)

Crude Oil and NGLs

In the normal course of business, AltaGas purchases and sells crude oil, condensates, and LPGs. The fixed price and market price contracts for both the purchase and sale of crude oil, condensates, and LPGs extend to 2021.

December 31, 2020	Fixed price (per Bbl)	Period (months)	Notional volume (Bbl)		Fair Value
Sales	**37.43 to 62.59**	**1**	**680,000**	**$**	**(1)**
Purchases	**19.92 to 59.01**	**1-9**	**221,000**	**$**	**2**

Energy Exports

AltaGas entered into a series of swaps to lock in a portion of the volumes exposed to the propane and butane price differentials between North American Indices and the Far East Index for contracts not under tolling arrangements at RIPET and Ferndale. AltaGas had the following contracts outstanding as at December 31, 2020:

December 31, 2020	Fixed price (per Bbl)	Period (months)	Notional volume (Bbl)		Fair Value
Propane and butane swaps	**3.57 to 61.46**	**1-36**	**37,425,488**	**$**	**(31)**

December 31, 2019	Fixed price (per Bbl)	Period (months)	Notional volume (Bbl)		Fair Value
Propane	21.49 to 29.71	1-27	9,374,826	$	(75)

NGL Frac Spread

AltaGas entered into a series of swaps to lock in a portion of the volumes exposed to NGL frac spread. AltaGas had the following contracts outstanding as at December 31, 2020 and 2019:

December 31, 2020	Fixed price	Period (months)	Notional volume		Fair Value
Propane swaps	**28.83 to 35.36/Bbl**	**1-12**	**1,270,350**	**Bbl $**	**(5)**
Butane swaps	**32.45 to 34.02/Bbl**	**1-12**	**307,784**	**Bbl $**	**(1)**
Crude oil swaps	**60.08 to 61.95/Bbl**	**1-12**	**123,120**	**Bbl $**	**—**
Natural gas swaps	**1.58 to 1.86/GJ**	**1-12**	**7,281,570**	**GJ $**	**—**

December 31, 2019	Fixed price	Period (months)	Notional volume		Fair Value
Butane swaps	73.02 to 75.15/Bbl	1-12	346,852	Bbl $	(1)
Crude oil swaps	73.02 to 75.15/Bbl	1-12	212,587	Bbl $	(1)
Natural gas swaps	1.58 to 1.86/GJ	1-12	3,883,992	GJ $	—

Power

AltaGas sells power to the Alberta Electric System Operator at market prices. AltaGas also sells power through its WGL Energy Services affiliate, to commercial, industrial and mass market users within the PJM Regional Transmission Organization at fixed and market prices. AltaGas' strategy is to mitigate the cash flow risk to power prices to provide predictable earnings. Therefore, AltaGas uses third-party swaps and purchase contracts to fix the prices over time on a portion of the volumes to mitigate financial exposure associated with the sale contracts. These power purchase and sale contracts extend to 2025. As at December 31, 2020, AltaGas had no intention to terminate any contracts prior to maturity. AltaGas had the following power commodity forward contracts and commodity swaps outstanding as at December 31, 2020 and 2019:

December 31, 2020	**Fixed price (per MWh)**	**Period (months)**	**Notional volume (MWh)**		**Fair Value**
Power sales	**24.56 to 61.75**	**1-33**	**5,482,242**	**$**	**13**
Power purchases	**24.56 to 61.88**	**1-63**	**8,848,007**	**$**	**(18)**
Swap purchases	**(6.26) to 74.26**	**1-44**	**24,081,519**	**$**	**(24)**

December 31, 2019	Fixed price (per MWh)	Period (months)	Notional volume (MWh)		Fair Value
Power sales	31.63 to 66.76	1-42	8,034,024	$	39
Power purchases	31.63 to 66.76	1-60	8,552,467	$	(27)
Swap purchases	(7.88) to 74.26	1-48	25,058,577	$	(24)

The table below provides the potential impact on pre-tax income due to changes in the fair value of risk management contracts in place as at December 31, 2020:

Factor	**Increase or decrease to forward prices**	**Increase or decrease to income before tax ($ millions)**
PJM power price	US$1/MWh	2
AECO natural gas price	$0.50/GJ	1
NYMEX natural gas price	US$0.50/GJ	36
Energy Exports:		
Propane Far East Index to domestic supply	$1/Bbl	10
Baltic LPG Freight	$1/Bbl	11
NGL frac spread:		
Propane	$1/Bbl	1
Natural gas	$0.50/GJ	4
Foreign exchange swaps	$0.01 CAD to USD	1

Foreign Exchange Risk

AltaGas is exposed to foreign exchange risk as changes in foreign exchange rates may affect the fair value or future cash flows of the Corporation’s financial instruments. AltaGas has foreign operations whereby the functional currency is the U.S. dollar. As a result, the Corporation’s earnings, cash flows, and OCI are exposed to fluctuations resulting from changes in foreign exchange rates. This risk is partially mitigated to the extent that AltaGas has U.S. dollar-denominated debt and/or preferred shares outstanding. AltaGas may also enter into foreign exchange forward derivatives to manage the risk of fluctuating cash flows due to variations in foreign exchange rates.

AltaGas may designate its U.S. dollar-denominated debt as a net investment hedge of its U.S. subsidiaries. As at December 31, 2020, AltaGas has not designated any outstanding debt as a net investment hedge (December 31, 2019 - US$300 million). For the year ended December 31, 2020, AltaGas incurred an after-tax unrealized loss of $9 million arising from the translation of debt in OCI (2019 - after-tax unrealized gains of $60 million).

In connection with the Petrogas Acquisition, AltaGas acquired various commodity and financial derivative instruments, including the following foreign exchange forward contracts which are outstanding as at December 31, 2020:

Foreign exchange forward contract	Notional Amount	Duration	Weighted average foreign exchange rate	Fair Value
Forward USD sales	**US$29**	**Less than one year**	**1.3591**	**$ 3**
Forward USD purchases	**US$356**	**Less than one year**	**1.2824**	**$ (3)**
Foreign exchange swaps (purchases)	**US$410**	**Less than one year**	**1.3322**	**$ 23**

For the year ended December 31, 2020, AltaGas recorded an after-tax realized gain of $1 million on all foreign exchange forward contracts.

Interest Rate Risk

AltaGas is exposed to interest rate risk as changes in interest rates may impact future cash flows and the fair value of its financial instruments. The Corporation manages its interest rate risk by holding a mix of both fixed and floating interest rate debt. As at December 31, 2020, approximately 83 percent of AltaGas' total outstanding short-term and long-term debt was at fixed rates (December 31, 2019 - 76 percent). In addition, from time to time, AltaGas may enter into interest rate swap agreements to fix the interest rate on a portion of its banker's acceptances issued under its credit facilities. There were no outstanding interest rate swaps as at December 31, 2020.

Credit Risk

Credit risk results from the possibility that a counterparty to a financial instrument fails to fulfill its obligations in accordance with the terms of the contract.

AltaGas' credit policy details the parameters used to grant, measure, monitor and report on credit provided to counterparties. AltaGas minimizes counterparty risk by conducting credit reviews on counterparties in order to establish specific credit limits, both prior to providing products or services and on a recurring basis. In addition, most contracts include credit mitigation clauses that allow AltaGas to obtain financial or performance assurances from counterparties under certain circumstances. AltaGas maintains an allowance for doubtful accounts in the normal course of its business.

AltaGas' maximum credit exposure consists primarily of the carrying value of the non-derivative financial assets and the fair value of derivative financial assets. As at December 31, 2020, AltaGas had no concentration of credit risk with a single counterparty.

Weather Related Instruments

WGL Energy Services utilizes heating degree day (HDD) instruments from time to time to manage weather and price risks related to its natural gas and electricity sales during the winter heating season. WGL Energy Services also utilizes cooling degree day (CDD) instruments and other instruments to manage weather and price risks related to its electricity sales during the summer cooling season. These instruments cover a portion of estimated revenue or energy-related cost exposure to variations in HDDs or CDDs. For the year ended December 31, 2020, a pre-tax loss of $3 million was recorded related to these instruments (2019 - pre-tax loss of $2 million).

Accounts Receivable Past Due or Impaired

With the exception of accounts receivable which are due in one year or less as summarized in the following table, AltaGas does not have any past due or impaired accounts receivables (AR) as at December 31, 2020:

As at December 31, 2020	**Total**	**AR accruals**	**Receivables impaired**	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**Over 90 days**
Trade receivable	**$ 1,465**	**$ 396**	**$ 41**	**$ 906**	**$ 52**	**$ 17**	**$ 53**
Other	**20**	**—**	**—**	**20**	**—**	**—**	**—**
Allowance for credit losses	**(41)**	**—**	**(41)**	**—**	**—**	**—**	**—**
	$ 1,444	**$ 396**	**$ —**	**$ 926**	**$ 52**	**$ 17**	**$ 53**

As at December 31, 2019	Total	AR accruals	Receivables impaired	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days
Trade receivable	$ 1,238	$ 343	$ 33	$ 758	$ 61	$ 12	$ 31
Other	17	—	—	17	—	—	—
Allowance for credit losses	(33)	—	(33)	—	—	—	—
	$ 1,222	$ 343	$ —	$ 775	$ 61	$ 12	$ 31

The following table provides a summary of changes to the allowance for credit losses by segment and major type:

	Year Ended December 31, 2020			
	Accounts Receivable	Contract Assets [a]	Other long-term investments and other assets [b]	Total
Utilities				
Balance, beginning of period	$ 31	$ —	$ —	$ 31
Adjustment upon adoption of ASC 326 [c]	2	—	—	2
Foreign exchange translation	(1)	—	—	(1)
New allowance [d]	32	—	—	32
Written off	(28)	—	—	(28)
Recoveries collected	4	—	—	4
Balance, end of period	$ 40	$ —	$ —	$ 40
Midstream				
Balance, beginning of period	$ 1	$ —	$ —	1
Adjustment upon adoption of ASC 326	—	1	3	4
Recoveries collected	—	—	(1)	(1)
Balance, end of period	$ 1	$ 1	$ 2	$ 4
Corporate/Other				
Balance, beginning of period	$ 2	$ —	$ —	$ 2
Adjustment upon adoption of ASC 326	—	—	1	1
Written off	(2)	—	—	(2)
Recoveries collected	—	—	(1)	(1)
Balance, end of period	$ —	$ —	$ —	$ —
Total	$ 41	$ 1	$ 2	$ 44

(a) An allowance for credit loss is assessed quarterly and is recorded based on historical default rates published by external credit rating agencies and a rate associated with the estimated time frame that the contract asset will be billed to the customer.

(b) Includes loan to affiliate, which is no longer outstanding at December 31, 2020, and other long-term receivables (Notes 12 and 29). An allowance for credit loss is assessed quarterly and is recorded based on historical default rates published by external credit rating agencies and a rate commensurate with the period in which the receivable is expected to be collected.

(c) Based on previous collection experience, AltaGas did not record an allowance for credit losses for its contract assets associated with its energy management services projects with the U.S. federal government.

(d) Includes $8 million recorded to a regulatory asset relating to the impact of COVID-19 on uncollectible accounts.

Liquidity Risk

Liquidity risk is the risk that AltaGas will not be able to meet its financial obligations as they come due. AltaGas manages this risk through its extensive budgeting and monitoring process to ensure it has sufficient cash and credit facilities to meet its obligations. AltaGas' objective is to maintain its investment-grade ratings to ensure it has access to debt and equity funding as required.

AltaGas had the following contractual maturities with respect to financial liabilities:

		Contractual maturities by period			
As at December 31, 2020	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 1,561**	**$ 1,561**	**$ —**	**$ —**	**$ —**
Dividends payable	**22**	**22**	**—**	**—**	**—**
Short-term debt	**256**	**256**	**—**	**—**	**—**
Other current liabilities [(a)]	**37**	**37**	**—**	**—**	**—**
Risk management contract liabilities	**256**	**111**	**51**	**22**	**72**
Current portion of long-term debt [(b)]	**356**	**356**	**—**	**—**	**—**
Long-term debt [(b)]	**7,581**	**—**	**1,771**	**1,324**	**4,486**
	$ 10,069	**$ 2,343**	**$ 1,822**	**$ 1,346**	**$ 4,558**

(a) Excludes non-financial liabilities.

(b) Excludes deferred financing costs, discounts, finance lease liabilities, and the fair value adjustment on the WGL Acquisition.

		Contractual maturities by period			
As at December 31, 2019	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	$ 1,325	$ 1,325	$ —	$ —	$ —
Dividends payable	22	22	—	—	—
Short-term debt	460	460	—	—	—
Other current liabilities [(a)]	15	15	—	—	—
Risk management contract liabilities	292	125	34	13	120
Current portion of long-term debt [(b)]	920	920	—	—	—
Long-term debt [(b)]	5,873	—	1,489	922	3,462
	$ 8,907	$ 2,867	$ 1,523	$ 935	$ 3,582

(a) Excludes non-financial liabilities.

(b) Excludes deferred financing costs, discounts, finance lease liabilities, and the fair value adjustment on the WGL Acquisition.

24. Revenue

The following tables disaggregate revenue by major sources for the year:

	Year Ended December 31, 2020			
	Utilities	**Midstream**	**Corporate/ Other**	**Total [a]**
Revenue from contracts with customers				
Commodity sales contracts	$ 1,338	$ 1,097	$ 1	$ 2,436
Midstream service contracts	—	277	—	277
Gas sales and transportation services	2,394	—	—	2,394
Storage services	25	—	—	25
Other	9	—	20	29
Total revenue from contracts with customers	$ 3,766	$ 1,374	$ 21	$ 5,161
Other sources of revenue				
Revenue from alternative revenue programs [b]	$ 96	$ —	$ —	$ 96
Leasing revenue [c]	1	139	100	240
Risk management and trading activities [d] [e]	(31)	112	—	81
Other	(15)	10	14	9
Total revenue from other sources	$ 51	$ 261	$ 114	$ 426
Total revenue	$ 3,817	$ 1,635	$ 135	$ 5,587

(a) In the first quarter of 2020, AltaGas revised its reportable segments. Comparative period numbers have been adjusted to reflect this change. Refer to Note 32 for additional information.

(b) A large portion of revenue generated from the Utilities segment is subject to rate regulation and accordingly there are circumstances where the revenue recognized is mandated by the applicable regulators in accordance with ASC 980.

(c) Revenue generated from certain of AltaGas' gas facilities is accounted for as operating leases. For the Corporate/Other segment, a significant amount of revenue earned is through power purchase agreements which are accounted for as operating leases.

(d) Risk management activities involve the use of derivative instruments such as physical and financial swaps, forward contracts, and options. These derivatives are accounted for under ASC 815 and ASC 825. A portion of revenue generated by the Utilities segment is from the physical sale and delivery of natural gas and power to end users.

(e) Trading margins in the Midstream segment are reported in risk management and trading activities. AltaGas enters into derivative contracts for the purpose of optimizing its storage and transportation capacity as well as managing the transportation and storage assets on behalf of third parties. The trading margins, including unrealized gains and losses on derivative instruments, are netted within revenues. Gross revenues for the year ended December 31, 2020 of $437 million associated with the GAIL Global (USA) LNG LLC (GAIL) contract and an Asset Management Agreement (AMA), which are in scope of ASC 606, are reported within risk management and trading activities. Revenue from the GAIL contract is recognized at a point in time based on the actual volumes of the commodity sold at the delivery point, which corresponds to the customer's monthly invoice amount. The GAIL contract has a term of 20 years and began on March 31, 2018. Revenue from the AMA is recognized based on the amount WGL Midstream has the right to invoice the customer in accordance with ASC 606. WGL executed the AMA in April 2020.

	Year Ended December 31, 2019			
	Utilities	Midstream	Corporate/ Other	Total [(a)]
Revenue from contracts with customers				
Commodity sales contracts	$ 1,428	$ 746	$ 51	$ 2,225
Midstream service contracts	—	145	—	145
Gas sales and transportation services	2,501	—	—	2,501
Storage services	28	—	—	28
Other	9	3	29	41
Total revenue from contracts with customers	$ 3,966	$ 894	$ 80	$ 4,940
Other sources of revenue				
Revenue from alternative revenue programs [(b)]	$ 30	$ —	$ —	$ 30
Leasing revenue [(c)]	1	137	105	243
Risk management and trading activities [(d) (e)]	52	188	22	262
Other	(5)	9	16	20
Total revenue from other sources	$ 78	$ 334	$ 143	$ 555
Total revenue	$ 4,044	$ 1,228	$ 223	$ 5,495

(a) In the first quarter of 2020, AltaGas revised its reportable segments. Comparative period numbers have been adjusted to reflect this change. Refer to Note 32 for additional information.

(b) A large portion of revenue generated from the Utilities segment is subject to rate regulation and accordingly there are circumstances where the revenue recognized is mandated by the applicable regulators in accordance with ASC 980.

(c) Revenue generated from certain of AltaGas' gas facilities is accounted for as operating leases. For the Corporate/Other segment, a significant amount of revenue earned is through power purchase agreements which are accounted for as operating leases.

(d) Risk management activities involve the use of derivative instruments such as physical and financial swaps, and forward contracts. These derivatives are accounted for under ASC 815 and ASC 825. A portion of revenue generated by the Utilities segment is from the physical sale and delivery of natural gas and power to end users.

(e) Trading margins in the Midstream segment are reported in risk management and trading activities. AltaGas enters into derivative contracts for the purpose of optimizing its storage and transportation capacity as well as managing the transportation and storage assets on behalf of third parties. The trading margins, including unrealized gains and losses on derivative instruments, are netted within revenues. Gross revenues for the year ended December 31, 2019 of $505 million associated with the GAIL Global (USA) LNG LLC (GAIL) contract and an Asset Management Agreement (AMA), which are in scope of ASC 606, are reported within risk management and trading activities. Revenue from the GAIL contract is recognized at a point in time based on the actual volumes of the commodity sold at the delivery point, which corresponds to the customer's monthly invoice amount. The GAIL contract has a term of 20 years and began on March 31, 2018. Revenue from the AMA is recognized based on the amount WGL Midstream has the right to invoice the customer in accordance with ASC 606. WGL executed the AMA in April 2020.

Revenue Recognition

The following is a description of the Corporation's revenue recognition policy by segment and by major source of revenue from contracts with customers.

Utilities Segment

Gas Sales and Transportation Services

Customers are billed monthly based on regular meter readings. Customer billings are based on two main components: (i) a fixed service fee and (ii) a variable fee based on usage. Revenue is recognized over time when the gas has been delivered or as the service has been performed. As meter readings are performed on a cycle basis, AltaGas recognizes accrued revenue for any services rendered to its customers but not billed at month-end. The vast majority of these contracts are "at-will" as customers may cancel their service at any time, however, there are certain contracts that have terms of one year or longer. For these long-term contracts, there is generally a contract demand specified in the contract whereby the customer has to pay regardless of whether or not gas has been delivered. These contracts generally do not contain any make up rights and revenue is recognized on a monthly basis as service has been performed.

Gas Storage Services

Gas storage customers are billed monthly for services provided. Customer billings are based on four components: (i) reservation charges; (ii) capacity charges; (iii) injection/withdrawal charges; and (iv) excess charges. Reservation charges are based on the customer's contract withdrawal quantity, capacity charges are based on the customer's total contract quantity, and injection/withdrawal charges are based on the volume of gas delivered to or from the customer. Excess charges are applied to each day that the storage quantity exceeds 100 percent of the customer's maximum storage quantity. Revenue is recognized as the service has been performed over time on a monthly basis, which corresponds to the invoice amount. The majority of these contracts have terms extending beyond one year.

Commodity Sales

Commodity sales also include gas sales to residential, commercial, and industrial customers in certain jurisdictions where WGL Energy Services is authorized as a competitive service provider. These commodity sales contracts have varying terms that generally range from one to five years. Customers are billed monthly based on the amount of gas delivered to the customer. Revenue is recognized based on the amount the Corporation is entitled to invoice the customer.

Midstream Segment

Commodity Sales

A portion of the NGL production from AltaGas' extraction facilities is subject to frac spread between NGLs extracted and the natural gas purchased to make up the heating value of the NGLs extracted. For commodity sales contracts that do not meet the definition of a derivative or for contracts whereby AltaGas has elected to apply the normal purchase normal sales scope exception, the sales contract is accounted for under ASC 606. These commodity sales contracts have varying terms but the majority of the contracts have a one-year term which coincides with the NGL year. AltaGas recognizes revenue for commodity sales contracts at a point in time based on the actual volumes of the commodity sold at the delivery point, which corresponds to the customer's monthly invoice amount.

Commodity sales contracts at RIPET and Ferndale generate revenue from the sale and delivery of LPGs to customers in Asia shipped from offshore export terminals. Revenue is recognized when LPGs are loaded onto transport vessels, which is the delivery point. AltaGas has the right to consideration in an amount that directly corresponds to the volumes of LPGs loaded on a vessel. Petrogas' commodity sales also include the sale of upgraded crude oil, processed finished products, and various fuels. Delivery takes place when there is a sales contract in place, specifying delivery volumes and sales prices. The consideration received under these contracts is variable based on commodity prices.

Midstream Service Contracts

AltaGas earns revenue from its field gathering and processing facilities, extraction facilities, storage facilities, truck hauling services, rail and truck loading and unloading terminalling, and transmission systems through a variety of contractual arrangements. For arrangements that do not contain a lease, the revenue is accounted for under ASC 606 as follows:

Fee-for-service – The customer is charged a fee for the service provided on a per unit volume basis. Contract terms generally range from one month to up to the life of the reserves. Revenue under this type of arrangement is recognized over time as the service is provided, which corresponds to the customer's monthly invoice amount.

Take-or-pay – The customer has agreed to a minimum volume commitment whereby the customer must have AltaGas process or deliver a specified volume at a rate per unit that is specified in the contract. Quantities that the customer is unable to deliver are considered deficiency quantities. Certain of AltaGas' take-or-pay contracts contain provisions whereby the customer can make up deficiency quantities in subsequent periods. Under this type of arrangement, any consideration received relating to the deficiency quantities that will be made up in a future period will be deferred until either: (i) the customer makes up the volumes or (ii) the likelihood that the customer will make up the volumes before the make up period expires becomes remote. If AltaGas does not expect the customer to make up the deficiency quantities (also referred to as breakage amount), AltaGas may recognize the expected breakage amount as revenue before the make up period expires. Significant judgment is required in estimating the breakage amount. For contracts where the customer has no make up rights, revenue is recognized on a monthly basis based on the higher of (i) the actual quantity delivered times the per unit rate or (ii) the contracted minimum amount.

Petrogas' storage fees are typically recognized in revenue ratably over the term of the contract and rail and truck loading and unloading fees are recognized when the volumes are delivered or received.

Corporate/Other Segment

For the Corporate/Other segment, the majority of revenue relates to remaining power assets, from which revenue is primarily earned through power purchase agreements which are accounted for as operating leases. In instances where power generation is not sold under a power purchase agreement, the commodity is sold via a merchant market, or via commodity sales agreements which are accounted for as financial instruments. For commodity sales contracts that do not meet the definition of a lease, derivative or for contracts whereby AltaGas has elected to apply the normal purchase normal sales scope exception, the sales contract is accounted for under ASC 606. This includes energy generated from combined heating and power assets that are sold under long term power purchase agreements with a general duration of approximately 20 years. These long term purchase agreements provide stable cash flow by way of contracted prices for the underlying commodities.

Contract Balances

As at December 31, 2020, a contract asset of $51 million ($50 million net of credit losses) has been recorded within long-term investments and other assets on the Consolidated Balance Sheets (December 31, 2019 – $30 million). This contract asset represents the difference in revenue recognized under a new rate in a blend-and-extend contract modification with a customer. Revenue from this contract modification will be recognized at the pre-modification rate for the remainder of the original term with the excess revenue recorded as a contract asset. The contract asset will be drawn down over the remaining term of the modified contract.

In addition, at December 31, 2020 there is a contract asset of $21 million (December 31, 2019 - $59 million) recorded within prepaid expenses and other current assets on the Consolidated Balance Sheets for WGL Energy Systems' unbilled revenue relating to design-build construction contracts. The contract asset represents unbilled amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized, and revenue recognized exceeds the amount billed to the customer. Right to payment is achieved when the projects are formally "accepted" by the federal government. At December 31, 2020, contract liabilities of $nil (December 31, 2019 - $2 million) have been recorded within accounts payable and accrued liabilities on the Consolidated Balance Sheets. The contract liabilities consisted of advance payments and billings in excess of revenue recognized and deferred revenue. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

Contract Assets

As at		December 31, 2020		December 31, 2019
Balance, beginning of year	**$**	**89**	$	59
Additions		**30**		32
Transfers to accounts receivable		**(49)**		—
Foreign exchange translation		**1**		(2)
Balance, end of year	**$**	**71**	$	89

Contract Liabilities

As at		December 31, 2020		December 31, 2019
Balance, beginning of year	**$**	**2**	$	2
Additions		**2**		2
Revenue recognized from contract liabilities [(a)]		**(4)**		(2)
Balance, end of year	**$**	**—**	$	2

(a) Recognition of revenue related to performance obligations satisfied in the current period for amounts that were previously included in contract liabilities.

Transaction price allocated to the remaining obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied as of December 31, 2020:

		2021		2022		2023		2024		2025		2026 & beyond		Total
Midstream service contracts	$	125	$	131	$	128	$	128	$	125	$	1,037	**$**	**1,674**
Storage services		24		23		23		23		23		142		**258**
Other		7		2		2		2		2		9		**24**
	$	156	$	156	$	153	$	153	$	150	$	1,188	**$**	**1,956**

AltaGas applies the practical expedient available under ASC 606 and does not disclose information about the remaining performance obligations for (i) contracts with an original expected length of one year or less, (ii) contracts for which revenue is recognized at the amount to which AltaGas has the right to invoice for performance completed, and (iii) contracts with variable consideration that is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation. In addition, the table above does not include any estimated amounts of variable consideration that are constrained. The majority of midstream service contracts, gas sales and transportation service contracts, and storage service contracts contain variable consideration whereby uncertainty related to the associated variable consideration will be resolved (usually on a daily basis) as volumes are processed, gas is delivered or as service is provided.

25. Shareholders' Equity

Authorization

AltaGas is authorized to issue an unlimited number of voting common shares. AltaGas is also authorized to issue such number of Preferred Shares in series at any time as have aggregate voting rights either directly or on conversion or exchange that in the aggregate represent less than 50 percent of the voting rights attaching to the then issued and outstanding Common Shares.

Dividend Reinvestment and Optional Cash Purchase Plan (DRIP or the Plan)

The Plan consisted of two components: a Dividend Reinvestment component and an Optional Cash Purchase component. The Premium Dividend™ component of the plan was suspended in December 2018. The Dividend Reinvestment and Optional Cash Purchase component was suspended in December 2019, with the December dividend (paid January 2020) being the last dividend payment eligible for reinvestment by participating shareholders under the DRIP. The Plan in its entirety will remain suspended until further notice.

Common Shares Issued and Outstanding	Number of shares		Amount
January 1, 2019	275,224,066	$	6,654
Shares issued for cash on exercise of options	76,177		1
Deferred taxes on share issuance cost	—		(4)
Shares issued under DRIP	3,774,442		68
December 31, 2019	279,074,685	$	6,719
Shares issued for cash on exercise of options	88,082		1
Deferred taxes on share issuance cost	—		(3)
Shares issued under DRIP	331,532		6
Issued and outstanding at December 31, 2020	**279,494,299**	**$**	**6,723**

Preferred Shares

As at	**December 31, 2020**			December 31, 2019		
Issued and Outstanding	**Number of shares**		**Amount**	Number of shares		Amount
Series A	**6,746,679**	**$**	**169**	5,511,220	$	138
Series B	**1,253,321**		**31**	2,488,780		62
Series C	**8,000,000**		**206**	8,000,000		206
Series E	**8,000,000**		**200**	8,000,000		200
Series G	**6,885,823**		**172**	6,885,823		172
Series H	**1,114,177**		**28**	1,114,177		28
Series I	—		—	8,000,000		200
Series K	**12,000,000**		**300**	12,000,000		300
Share issuance costs, net of taxes			**(29)**			(29)
	44,000,000	**$**	**1,077**	52,000,000	$	1,277

On December 31, 2020, all outstanding Series I shares were redeemed. No gain or loss was recognized upon redemption. In 2019, all outstanding Washington Gas preferred shares were redeemed. A gain of $4 million was recognized upon redemption.

The following table outlines the characteristics of the cumulative redeemable preferred shares [(a)]:

	Current yield	Annual dividend per share[(b)]	Redemption price per share	Redemption and conversion option date[(c)(d)]	Right to convert into[(d)]
Series A [(e)]	3.060 %	$0.76500	$25	September 30, 2025	Series B
Series B [(f) (g)]	Floating	Floating	$25	September 30, 2025	Series A
Series C [(h)]	5.290 %	US$1.32250	US$25	September 30, 2022	Series D
Series E [(e)]	5.393 %	$1.34825	$25	December 31, 2023	Series F
Series G [(e)]	4.240 %	$1.06050	$25	September 30, 2024	Series H
Series H [(f) (g)]	Floating	Floating	$25	September 30, 2024	Series G
Series K [(i)]	5.000 %	$1.25000	$25	March 31, 2022	Series L

(a) This table only includes those series of preferred shares that are currently issued and outstanding. The Corporation is authorized to issue up to 8,000,000 of each of Series D Shares, Series F Shares, and up to 12,000,000 of Series L Shares, subject to certain conditions, upon conversion by the holders of the applicable currently issued and outstanding series of preferred shares noted opposite such series in the table on the applicable conversion option date. If issued upon the conversion of the applicable series of preferred shares, Series F Shares, and Series L Shares are also redeemable for $25.50, and Series D Shares are redeemable for US$25.50 on any date after the applicable conversion option date, plus all accrued but unpaid dividends to, but excluding, the date fixed for redemption.

(b) The holders of Series A Shares, Series C Shares, Series E Shares, Series G Shares, Series H Shares, and Series K Shares are entitled to receive a cumulative quarterly fixed dividend as and when declared by the Board of Directors. The holders of Series B Shares and Series H Shares are entitled to receive a quarterly floating dividend as and when declared by the Board of Directors. If issued upon the conversion of the applicable series of Preferred Shares, the holders of Series D Shares, Series F Shares, and Series L Shares will be entitled to receive a quarterly floating dividend as and when declared by the Board of Directors.

(c) AltaGas may, at its option, redeem all or a portion of the outstanding shares for the redemption price per share, plus all accrued and unpaid dividends on the applicable redemption option date and on every fifth anniversary thereafter.

(d) The holder will have the right, subject to certain conditions, to convert their preferred shares of a specified series into Preferred Shares of that other specified series as noted in this column of the table on the applicable conversion option date and every fifth anniversary thereafter.

(e) Holders of Series A Shares, Series E Shares, and Series G Shares will be entitled to receive cumulative quarterly fixed dividends, which will reset on the redemption and conversion option date and every fifth year thereafter, at a rate equal to the sum of the then five-year Government of Canada bond yield plus 2.66 percent (Series A Shares), 3.17 percent (Series E Shares), and 3.06 percent (Series G Shares).

(f) Holders of Series B Shares and Series H Shares will be entitled to receive cumulative quarterly floating dividends, which will reset each quarter thereafter at a rate equal to the sum of the then 90-day government of Canada Treasury Bill rate plus 2.66 percent (Series B Shares) and 3.06 percent (Series H Shares). Each quarterly dividend is calculated as the annualized amount multiplied by the number of days in the quarter, divided by the number of days in the year. Commencing December 31, 2020, the floating quarterly dividend rate is $0.17069 per share for Series B Shares and $0.195349 per share for Series H Shares for the period starting December 31, 2020 to, but excluding, March 31, 2021.

(g) Series B Shares can be redeemed for $25.50 per share on any date after September 30, 2015 that is not a Series B conversion date, plus all accrued and unpaid dividends to, but excluding, the date fixed for redemption. Series H Shares can be redeemed for $25.50 per share on any date after September 30, 2019 that is not a Series H conversion date, plus all accrued and unpaid dividends to, but excluding, the date fixed for redemption.

(h) Holders of Series C Shares will be entitled to receive cumulative quarterly fixed dividends, which will reset on the redeemable and conversion option date and every fifth year thereafter, at a rate equal to the sum of the five-year U.S. Government bond yield plus 3.58 percent.

(i) Holders of Series K Shares will be entitled to receive cumulative quarterly fixed dividends, which will reset on the redeemable and conversion option date and every fifth year thereafter, at a rate equal to the then five-year Government of Canada bond yield plus 3.80 percent, provided that, in any event, such rate shall not be less than 5.00 percent per annum.

Share Option Plan

AltaGas has an employee share option plan under which officers, employees, and service providers (as defined by the TSX) are eligible to receive grants. As at December 31, 2020, 13,915,160 shares were reserved for issuance under the plan.

As at December 31, 2020, share options granted under the plan have a term between six and ten years until expiry and vest no longer than over a four-year period.

As at December 31, 2020, the unexpensed fair value of share option compensation cost associated with future periods was $4 million (December 31, 2019 - $5 million).

The following table summarizes information about the Corporation's share options:

As at	December 31, 2020 Options outstanding		December 31, 2019 Options outstanding	
	Number of options	**Exercise price [(a)]**	Number of options	Exercise price [(a)]
Share options outstanding, beginning of year	**7,043,956**	**$ 22.49**	6,309,183	$ 25.18
Granted	**2,501,755**	**19.46**	2,287,385	19.12
Exercised	**(88,082)**	**14.89**	(76,177)	14.52
Forfeited	**(631,549)**	**26.00**	(1,165,435)	27.31
Expired	**(463,869)**	**27.69**	(311,000)	36.16
Share options outstanding, end of year	**8,362,211**	**$ 21.06**	7,043,956	$ 22.49
Share options exercisable, end of year	**3,607,391**	**$ 23.59**	2,921,642	$ 27.70

(a) Weighted average.

As at December 31, 2020, the aggregate intrinsic value of the total share options exercisable was $5 million (December 31, 2019 - $3 million), the total intrinsic value of share options outstanding was $9 million (December 31, 2019 - $12 million) and the total intrinsic value of share options exercised was less than $1 million (December 31, 2019 - less than $1 million).

The following table summarizes the employee share option plan as at December 31, 2020:

	Options outstanding			Options exercisable		
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number exercisable	Weighted average exercise price	Weighted average remaining contractual life (years)
$14.52 to $18.00	2,446,392	$ 15.24	4.07	1,359,457	$ 14.92	4.00
$18.01 to $25.08	3,930,345	19.56	4.80	528,252	19.54	4.47
$25.09 to $41.00	1,985,474	31.21	1.82	1,719,682	31.68	1.64
	8,362,211	**$ 21.06**	**3.88**	**3,607,391**	**$ 23.59**	**2.95**

The fair value of each option granted is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average grant date fair value and assumptions are as follows:

Year ended December 31	2020	2019
Fair value per options ($)	**2.61**	2.30
Risk-free interest rate (%)	**1.54**	1.48
Expected life (years)	**6**	6
Expected volatility (%)	**25.40**	24.84
Annual dividend per share ($) [(a)]	**0.96**	0.96
Forfeiture rate (%)	**—**	—

(a) Annual dividend per share is calculated based on a weighted average share price and forward dividend yields as the grant dates.

Phantom Unit Plan (Phantom Plan) and Deferred Share Unit Plan (DSUP)

AltaGas has a Phantom Plan for employees and executive officers, which includes restricted units (RUs) and performance units (PUs) with vesting periods of 36 to 44 months from the grant date. In addition, AltaGas has a DSUP, which allows granting of deferred share units (DSUs) to directors. DSUs granted under the DSUP vest immediately but settlement of the DSUs occur when the individual ceases to be a director.

PUs, RUs, and DSUs *(number of units)*	**2020**	2019
Balance, beginning of year	**6,484,831**	9,908,154
Granted	**1,158,547**	674,971
Vested and paid out	**(681,841)**	(791,335)
Forfeited	**(1,342,832)**	(3,377,962)
Units in lieu of dividends	**113,429**	71,003
Outstanding, end of year	**5,732,134**	6,484,831

For the year ended December 31, 2020, the compensation expense recorded for the Phantom Plan and DSUP was $16 million (2019 – $22 million). As at December 31, 2020, the unrecognized compensation expense relating to the remaining vesting period for the Phantom Plan was $23 million (December 31, 2019 - $22 million) and is expected to be recognized over the vesting period.

26. Net Income Per Common Share

The following table summarizes the computation of net income per common share:

		Year Ended December 31		
		2020		2019
Numerator:				
Net income applicable to controlling interests	**$**	**552**	$	833
Less: Preferred share dividends		**(66)**		(68)
Gain on redemption of preferred shares *(note 25)*		**—**		4
Net income applicable to common shares	**$**	**486**	$	769
Denominator:				
(millions of shares)				
Weighted average number of common shares outstanding		**279.4**		276.9
Dilutive equity instruments [(a)]		**0.3**		0.5
Weighted average number of common shares outstanding - diluted		**279.7**		277.4
Basic net income per common share	**$**	**1.74**	$	2.78
Diluted net income per common share	**$**	**1.74**	$	2.77

(a) Determined using the treasury stock method.

For the year ended December 31, 2020, 7.0 million share options (2019 – 4.3 million) were excluded from the diluted net income per share calculation as their effects were anti-dilutive.

27. Other Income

Year Ended December 31		**2020**		2019
Gains on asset sales *(note 4)*	**$**	**223**	$	876
Gain on remeasurement of previously held interest in AIJVLP *(note 3)*		**22**		—
Other components of net benefit cost *(note 28)*		**52**		27
Interest income and other revenue		**9**		9
Losses on investments		**—**		(4)
Total	**$**	**306**	$	908

28. Pension Plans and Retiree Benefits

The costs of the defined benefit and post-retirement benefit plans are based on Management's estimate of the future rate of return on the fair value of pension plan assets, salary escalations, mortality rates and other factors affecting the payment of future benefits.

In 2020, AltaGas made a voluntary change in accounting principle for calculating the market-related value of assets used in the determination of Washington Gas' net periodic pension and other post-retirement benefit plan costs. This change in accounting principle impacts the calculation of net periodic benefit cost recorded within the line item “other income” on the Consolidated Statements of Income. Refer to Note 2 for additional information.

Defined Contribution Plan

AltaGas has a defined contribution (DC) pension plan for substantially all employees. The pension cost recorded for the DC plan was $21 million for the year ended December 31, 2020 (2019 - $20 million).

Defined Benefit Plans

AltaGas has several defined benefit pension plans for unionized and non-unionized employees, including one in Canada (which is comprised of five divisions) and six in the United States. The plans in the United States include a qualified, trusteed, non-contributory defined benefit pension plan, and a non-funded defined benefit restoration plan maintained by Washington Gas.

The defined benefit plans are partially funded except for three of the divisions in Canada which are fully funded and one of the plans in the United States which is not funded.

AltaGas’ most recent actuarial valuation of the Canadian defined benefit plans for funding purposes was completed for the year ended December 31, 2019. AltaGas is required to file an actuarial valuation of its Canadian defined benefit plans with the pension regulators at least every three years. The next actuarial valuation for funding purposes is required to be completed as of a date no later than December 31, 2022, and will be filed with the pension regulators in 2023. Actuarial valuations for funding purposes are required annually for AltaGas’ U.S. defined benefit plans.

Supplemental Executive Retirement Plans (SERP)

AltaGas has non-registered, defined benefit plans that provide defined benefit pension benefits to eligible executives based on average earnings, years of service and age at retirement. The SERP benefits will be paid from the general revenue of the Corporation as payments come due or from the Rabbi Trusts funded as part of the WGL acquisition. Security will be provided for the SERP benefits through a letter of credit within a retirement compensation arrangement trust account.

Several executive officers of Washington Gas participate in a separate non-funded defined benefit SERP (a non-qualified pension plan). This defined benefit SERP was closed to new entrants beginning January 1, 2010.

Post-Retirement Benefit Plans

AltaGas has several post-retirement benefit plans for unionized and non-unionized employees, including one in Canada and four in the United States. The post-retirement benefit plan in Canada is limited to the payment of life insurance and an annual allocation to a Healthcare Spending Account (HSA). This benefit plan is not funded.

Post-retirement benefit plans in the United States provide certain medical, prescription drug, dental, and life insurance benefits to eligible retired employees, their spouses and covered dependents. Benefits are based on a combination of the retiree's age and years of service at retirement. For eligible Washington Gas retirees and dependents not yet receiving Medicare benefits, Washington Gas provides medical, prescription drug, and dental benefits through Preferred Provider Organization (PPO) or Health Maintenance Organization (HMO) plans, through the Washington Gas Light Company Retiree Medical Plan. For Medicare-eligible retirees age 65 and older and their dependents, eligible retirees and dependents participate in a tax-free Health Reimbursement Account (HRA) Plan. The HRA plan provides an annual subsidy to help purchase supplemental medical, prescription drug and dental coverage in the marketplace. One of these benefit plans is partially funded and three are fully funded.

Rabbi Trusts

Rabbi trusts of $28 million as at December 31, 2020 have been funded to satisfy the employee benefit obligations associated with WGL's various pension plans (December 31, 2019 - $57 million). These balances are included in prepaid expenses and other current assets and long-term investments and other assets in the Consolidated Balance Sheets.

The following table summarizes the details of the defined benefit plans, including the SERP and post-retirement plans in Canada and the United States:

Year Ended December 31, 2020	Canada		United States		Total	
	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits
Projected benefit obligation [(a)]						
Balance, beginning of year	$ 36	$ 2	$ 1,725	$ 428	$ 1,761	$ 430
Actuarial loss	1	—	137	32	138	32
Current service cost	3	—	27	9	30	9
Member contributions	—	—	—	2	—	2
Interest cost	1	—	60	15	61	15
Benefits paid	(4)	—	(82)	(24)	(86)	(24)
Expenses paid	—	—	(1)	—	(1)	—
Settlements	—	—	(25)	—	(25)	—
Foreign exchange translation	—	—	(41)	(10)	(41)	(10)
Balance, end of year	$ 37	$ 2	$ 1,800	$ 452	$ 1,837	$ 454
Plan assets						
Fair value, beginning of year	$ 15	$ —	$ 1,504	$ 906	$ 1,519	$ 906
Actual return on plan assets	1	—	275	157	276	157
Employer contributions	4	—	37	—	41	—
Member contributions	—	—	—	2	—	2
Benefits paid	(4)	—	(82)	(24)	(86)	(24)
Expenses paid	—	—	(1)	—	(1)	—
Settlements	—	—	(25)	—	(25)	—
Foreign exchange translation	—	—	(41)	(25)	(41)	(25)
Fair value, end of year	$ 16	$ —	$ 1,667	$ 1,016	$ 1,683	$ 1,016
Funded status	$ (21)	$ (2)	$ (133)	$ 564	$ (154)	$ 562

(a) For post-retirement benefit plans, the projected benefit obligation represents the accumulated benefit obligation.

Year Ended December 31, 2019	Canada		United States		Total	
	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits
Projected benefit obligation [(a)]						
Balance, beginning of year	$ 34	$ 2	$ 1,635	$ 458	$ 1,669	$ 460
Actuarial loss (gain)	2	—	182	(15)	184	(15)
Current service cost	3	—	24	9	27	9
Member contributions	—	—	—	2	—	2
Interest cost	1	—	68	19	69	19
Benefits paid	(4)	—	(77)	(24)	(81)	(24)
Expenses paid	—	—	(1)	—	(1)	—
Settlements	—	—	(24)	—	(24)	—
Other	—	—	—	1	—	1
Foreign exchange translation	—	—	(82)	(22)	(82)	(22)
Balance, end of year	$ 36	$ 2	$ 1,725	$ 428	$ 1,761	$ 430
Plan assets						
Fair value, beginning of year	$ 14	$ —	$ 1,354	$ 791	$ 1,368	$ 791
Actual return on plan assets	1	—	284	177	285	177
Employer contributions	4	—	39	—	43	—
Member contributions	—	—	—	2	—	2
Benefits paid	(4)	—	(77)	(23)	(81)	(23)
Expenses paid	—	—	(1)	—	(1)	—
Settlements	—	—	(25)	—	(25)	—
Foreign exchange translation	—	—	(70)	(41)	(70)	(41)
Fair value, end of year	$ 15	$ —	$ 1,504	$ 906	$ 1,519	$ 906
Funded status	$ (21)	$ (2)	$ (221)	$ 478	$ (242)	$ 476

(a) For post-retirement benefit plans, the projected benefit obligation represents the accumulated benefit obligation.

For the year ended December 31, 2020, AltaGas' pension plans incurred actuarial losses primarily due to the decrease in discount rates, which were the result of a decline in high-quality corporate bond yield curves in the Canadian and U.S. markets. For the year ended December, 31, 2019, AltaGas' defined benefit plans incurred actuarial losses for the same reason as mentioned above. AltaGas' post-retirement benefits plans incurred actuarial gains primarily due to updated census data and assumptions related to the HRA, partially offset by the decrease in discount rates.

The following amounts were included in the Consolidated Balance Sheets:

	December 31, 2020			**December 31, 2019**		
	Defined Benefit	**Post-Retirement Benefits**	**Total**	Defined Benefit	Post-Retirement Benefits	Total [(a)]
Prepaid post-retirement benefits	**$ —**	**$ 572**	**$ 572**	$ —	$ 487	$ 487
Accounts payable and accrued liabilities [(a)]	**(9)**	**—**	**(9)**	(26)	—	(26)
Future employee obligations	**(145)**	**(10)**	**(155)**	(216)	(11)	(227)
	$ (154)	**$ 562**	**$ 408**	$ (242)	$ 476	$ 234

(a) Account balances on the Consolidated Balance Sheets also include certain non-pension related amounts.

The accumulated benefit obligation for all defined benefit plans were:

As at	December 31, 2020		December 31, 2019	
	Canada	**United States**	Canada	United States
Accumulated benefit obligation [(a)]	**$ 36**	**$ 1,704**	$ 35	$ 1,616

(a) Accumulated benefit obligation differs from projected benefit obligation in that it does not include an assumption with respect to future compensation levels.

For those pension plans where the projected benefit obligation exceeded the fair value of plan assets as at December 31, 2020, the cumulative obligation and asset balances were:

As at	December 31, 2020		December 31, 2019	
	Defined Benefit	**Post-Retirement Benefits**	Defined Benefit	Post-Retirement Benefits
Projected benefit obligation	**$ 1,824**	**$ 14**	$ 1,757	$ 13
Plan assets	**$ 1,670**	**$ 3**	$ 1,515	$ 3

For those pension plans where the accumulated benefit obligation exceeded the fair value of plan assets as at December 31, 2020, the cumulative obligation and asset balances were:

As at	December 31, 2020		December 31, 2019	
	Defined Benefit	**Post-Retirement Benefits**	Defined Benefit	Post-Retirement Benefits
Accumulated benefit obligation	**$ 427**	**$ 14**	$ 1,648	$ 13
Plan assets	**$ 329**	**$ 3**	$ 1,515	$ 3

The following amounts were recorded in other comprehensive income (loss) and have not yet been recognized in net periodic benefit cost:

Year Ended December 31, 2020	**Canada**		**United States**		**Total**	
	Defined Benefit	**Post-Retirement Benefits**	**Defined Benefit**	**Post-Retirement Benefits**	**Defined Benefit**	**Post-Retirement Benefits**
Past service cost	**$ —**	**$ —**	**$ —**	**$ (3)**	**$ —**	**$ (3)**
Net actuarial gain (loss)	**(9)**	**(1)**	**6**	**(8)**	**(3)**	**(9)**
Recognized in AOCI pre-tax	**$ (9)**	**$ (1)**	**$ 6**	**$ (11)**	**$ (3)**	**$ (12)**
Increase (decrease) by the amount included in deferred tax liabilities	**2**	**—**	**(2)**	**3**	**—**	**3**
Net amount in AOCI after-tax	**$ (7)**	**$ (1)**	**$ 4**	**$ (8)**	**$ (3)**	**$ (9)**

Year Ended December 31, 2019	Canada		United States		Total	
	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits
Net actuarial gain (loss)	$ (9)	$ —	$ (15)	$ 18	$ (24)	$ 18
Recognized in AOCI pre-tax	$ (9)	$ —	$ (15)	$ 18	$ (24)	$ 18
Increase (decrease) by the amount included in deferred tax liabilities	2	—	7	(9)	9	(9)
Net amount in AOCI after-tax	$ (7)	$ —	$ (8)	$ 9	$ (15)	$ 9

The following amounts were recorded in a regulatory asset (liability) and have not yet been recognized in net periodic benefit cost:

Year Ended December 31, 2020	**Canada**		**United States**		**Total**	
	Defined Benefit	**Post-Retirement Benefits**	**Defined Benefit**	**Post-Retirement Benefits**	**Defined Benefit**	**Post-Retirement Benefits**
Past service credit	**$ —**	**$ —**	**$ —**	**$ (94)**	**$ —**	**$ (94)**
Net actuarial loss (gain)	**—**	**—**	**68**	**(241)**	**68**	**(241)**
Recognized in regulatory asset (liability)	**$ —**	**$ —**	**$ 68**	**$ (335)**	**$ 68**	**$ (335)**

Year Ended December 31, 2019	**Canada**		**United States**		**Total**	
	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits
Past service cost (credit)	$ —	$ —	$ 1	$ (105)	$ 1	$ (105)
Net actuarial loss (gain)	—	—	127	(156)	127	(156)
Recognized in regulatory asset (liability)	$ —	$ —	$ 128	$ (261)	$ 128	$ (261)

The costs of the defined benefit and post-retirement benefit plans are based on Management's estimate of the future rate of return on the fair value of pension plan assets, salary escalations, mortality rates and other factors affecting the payment of future benefits.

The net pension expense by plan was as follows:

	Year Ended December 31, 2020					
	Canada		**United States**		**Total**	
	Defined Benefit	**Post-Retirement Benefits**	**Defined Benefit**	**Post-Retirement Benefits**	**Defined Benefit**	**Post-Retirement Benefits**
Current service cost [a]	**$ 3**	**$ —**	**$ 27**	**$ 9**	**$ 30**	**$ 9**
Interest cost [b]	**1**	**—**	**60**	**15**	**61**	**15**
Expected return on plan assets [b] [c]	**(1)**	**—**	**(81)**	**(40)**	**(82)**	**(40)**
Amortization of past service credit [b]	**—**	**—**	**—**	**(19)**	**—**	**(19)**
Amortization of net actuarial loss (gain) [b] [c]	**1**	**—**	**10**	**(5)**	**11**	**(5)**
Plan settlements [b]	**—**	**—**	**7**	**—**	**7**	**—**
Net benefit cost (income) recognized	**$ 4**	**$ —**	**$ 23**	**$ (40)**	**$ 27**	**$ (40)**

(a) Recorded under the line item “operating and administrative” expenses on the Consolidated Statements of Income.

(b) Recorded under the line item “other income” on the Consolidated Statements of Income.

(c) Includes the impact of the voluntary change in accounting principle implemented in 2020. Refer to Note 2 for additional information.

	Year Ended December 31, 2019					
	Canada		United States		Total	
	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits	Defined Benefit	Post-Retirement Benefits
Current service cost [a]	$ 3	$ —	$ 24	$ 9	$ 27	$ 9
Interest cost [b]	1	—	68	19	69	19
Expected return on plan assets [b]	(1)	—	(75)	(37)	(76)	(37)
Amortization of past service credit [b]	—	—	—	(22)	—	(22)
Amortization of net actuarial loss [b]	1	—	12	—	13	—
Plan settlements [b]	—	—	4	—	4	—
Other [b]	—	—	—	1	—	1
Net benefit cost (income) recognized	$ 4	$ —	$ 33	$ (30)	$ 37	$ (30)

(a) Recorded under the line item "operating and administrative" expenses on the Consolidated Statements of Income.

(b) Recorded under the line item "other income" on the Consolidated Statements of Income.

The objective for fund returns, over three to five-year periods, is the sum of two components - a passive component, which is the benchmark index market returns for the asset mix in effect, plus the added value expected from active management. It is the Corporation's belief that the potential additional returns justify the additional risk associated with active management. The risk inherent in the investment strategy over a market cycle (a three-to five-year period) is two-fold. There is a risk that the market returns, as measured by the benchmark returns, will not be in line with expectations. The other risk is that the expected added value of active management over passive management will not be realized over the time period prescribed in each fund manager's mandate. There is also the risk of annual volatility in returns, which means that in any one year the actual return may be very different from the expected return.

Cash and money market investments may be held from time to time as short-term investment decisions at the discretion of the fund manager(s) within the constraints prescribed by their mandate(s).

The Corporation's target asset mix for the Canadian plans is 45 percent to 55 percent fixed income assets. The target asset mix for SEMCO plans is 33 percent fixed income assets and for WGL plans is 50 percent to 70 percent fixed income assets. These objectives have taken into account the nature of the liabilities and the risk-reward tolerance of the Corporation.

The collective investment mixes for the plans are as follows as at December 31, 2020:

Canada	**Fair value**	Level 1	Level 2	Percentage of Plan Assets (%)
Cash and short-term equivalents	**$ 2**	$ 2	$ —	13
Canadian equities	**3**	3	—	19
Foreign equities	**4**	4	—	25
Fixed income	**6**	6	—	38
Real estate	**1**	—	1	5
	$ 16	$ 15	$ 1	100

United States	Fair value	Level 1	Level 2	Percentage of Plan Assets (%)
Cash and short-term equivalents	**$ 14**	$ 14	$ —	1
Canadian equities	**1**	1	—	—
Foreign equities [(a)]	**357**	357	—	13
Fixed income	**1,002**	129	873	37
Other [(b)]	**23**	—	23	1
Total investments in the fair value hierarchy	**$ 1,397**	$ 501	$ 896	52
Investments measured at net asset value using the NAV practical expedient [(c)]				
Commingled funds [(d)]	**$ 728**			27
Private equity/limited partnership [(e)]	**56**			2
Pooled separate accounts [(f)]	**32**			1
Collective trust fund [(g)]	**476**			18
Total fair value of plan investments	**$ 2,689**			100
Net payable [(h)]	**(6)**			—
	$ 2,683			100

(a) Investments in foreign equities include U.S. and international securities.

(b) As at December 31, 2020, these investments consisted primarily of non-U.S. government bonds.

(c) In accordance with ASC Topic 820, these investments are measured at fair value using net asset value (NAV) per share as a practical expedient and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the statements of net assets available for plan benefits.

(d) As at December 31, 2020, investments in commingled funds consisted of approximately 50 percent common stock of large-cap U.S. companies, 20 percent U.S. Government fixed income securities, and 30 percent corporate bonds for WGL's post-retirement benefit plans.

(e) As at December 31, 2020, investments in a private equity/limited partnership consisted of common stock of international companies.

(f) As at December 31, 2020, investments in pooled separate accounts consisted of income producing properties located in the United States.

(g) As at December 31, 2020, investments in collective trust funds consisted primarily of 90 percent common stock of U.S, companies, 7 percent income producing properties located in the United States, and 3 percent short-term money market investments.

(h) As at December 31, 2020, this net payable primarily represents pending trades for investments purchased net of pending trades for investments sold and interest receivable.

Total	Fair value	Level 1	Level 2	Percentage of Plan Assets (%)
Cash and short-term equivalents	**$ 16**	$ 16	$ —	1
Canadian equities	**4**	4	—	—
Foreign equities [(a)]	**361**	361	—	13
Fixed income	**1,008**	135	873	37
Real estate	**1**	—	1	—
Other [(b)]	**23**	—	23	1
Total investments in the fair value hierarchy	**$ 1,413**	$ 516	$ 897	52
Investments measured at net asset value using the NAV practical expedient [(c)]				
Commingled funds[(d)]	**$ 728**			27
Private equity/limited partnership [(e)]	**56**			2
Pooled separate accounts [(f)]	**32**			1
Collective trust fund [(g)]	**476**			18
Total fair value of plan investments	**$ 2,705**			100
Net payable [(h)]	**(6)**			—
	$ 2,699			100

(a) Investments in foreign equities include U.S. and international securities.

(b) As at December 31, 2020, these investments consisted primarily of non-U.S. government bonds.

(c) In accordance with ASC Topic 820, these investments are measured at fair value using net asset value (NAV) per share as a practical expedient and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the statements of net assets available for plan benefits.

(d) As at December 31, 2020, investments in commingled funds consisted of approximately 50 percent common stock of large-cap U.S. companies, 20 percent U.S. Government fixed income securities, and 30 percent corporate bonds for WGL's post-retirement benefit plans.

(e) As at December 31, 2020, investments in a private equity/limited partnership consisted of common stock of international companies.

(f) As at December 31, 2020, investments in pooled separate accounts consisted of income producing properties located in the United States.

(g) As at December 31, 2020, investments in collective trust funds consisted primarily of 90 percent common stock of U.S, companies, 7 percent income producing properties located in the United States, and 3 percent short-term money market investments.

(h) As at December 31, 2020, this net payable primarily represents pending trades for investments purchased net of pending trades for investments sold and interest receivable.

Year Ended December 31	**2020**		2019	
Significant actuarial assumptions used in measuring net benefit plan costs	**Defined Benefit**	**Post-Retirement Benefits**	Defined Benefit	Post-Retirement Benefits
Discount rate (%)	**2.30 - 3.50**	**3.10 - 3.60**	2.90 - 4.40	3.90 - 4.50
Expected long-term rate of return on plan assets (%) [(a)]	**5.25 - 7.05**	**4.03 - 7.05**	5.75 - 7.15	4.66 - 7.15
Rate of compensation increase (%)	**2.75 - 4.00**	**3.50**	2.75 - 4.10	4.10
Average remaining service life of active employees (years)	**10.2**	**13.0**	9.0	13.2

(a) Only applicable for funded plans

As at December 31	**2020**		2019	
Significant actuarial assumptions used in measuring benefit obligations	**Defined Benefit**	**Post-Retirement Benefits**	Defined Benefit	Post-Retirement Benefits
Discount rate (%)	**1.90 - 2.80**	**2.50 - 2.90**	2.90 - 3.50	3.10 - 3.60
Rate of compensation increase (%)	**1.73 - 3.93**	**2.50 - 3.00**	2.75 - 4.00	3.50

The expected rate of return on assets is based on the current level of expected returns on risk free investments, the historical level of risk premium associated with other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected rate of return on assets assumption for the portfolio.

The discount rate is based on yields available on high-quality long-term corporate bonds, with maturities matching the estimated timing and amount of expected benefit payments.

The estimates for health care benefits take into consideration increased health care benefits due to aging and cost increases in the future. The assumed health care cost trend rate used to measure the expected cost of benefits for the next year was between 2.2 and 6.0 percent. The health care cost trend rates were assumed to decline to between 2.2 and 4.5 percent by 2027.

The following table shows the expected cash flows for defined benefit pension and other post-retirement plans:

	Defined Benefit	Post-Retirement Benefits
Expected employer contributions:		
2021	$ 16	$ —
Expected benefit payments:		
2021	$ 90	$ 25
2022	$ 91	$ 22
2023	$ 88	$ 22
2024	$ 89	$ 21
2025	$ 90	$ 21
2026 - 2030	$ 466	$ 110

29. Commitments, Guarantees, and Contingencies

Commitments

AltaGas has long-term natural gas purchase and transportation arrangements, LPG purchase agreements, crude oil and condensate purchase agreements, electricity purchase arrangements, service agreements, pipeline and storage service contracts, capital commitments, environmental commitments, merger commitments, and operating leases for office space, office equipment, vehicles, rail cars, land, storage, aquatic surface use, and other equipment, all of which are transacted at market prices and in the normal course of business.

Future payments of these commitments as at December 31, 2020 are estimated as follows:

	2021	2022	2023	2024	2025	2026 & beyond	Total
Gas purchase [a]	$ 1,974	$ 2,075	$ 1,858	$ 1,863	$ 1,901	$ 17,612	**$ 27,283**
LPG purchase [b]	407	199	161	108	83	258	**1,216**
Crude oil and condensate purchase [c]	184	—	—	—	—	—	**184**
Electricity purchase [d]	463	287	106	29	3	—	**888**
Service agreements [e] [f] [g]	48	32	26	27	27	282	**442**
Pipeline and storage services [h]	661	637	621	564	528	3,134	**6,145**
Capital projects [i]	20	1	1	1	1	1	**25**
Operating leases [j]	96	81	58	50	40	125	**450**
Environmental [k]	7	3	1	1	1	—	**13**
Merger commitments [l]	5	2	2	2	1	3	**15**
Land purchase commitment [m]	20	—	—	—	—	—	**20**
Post-acquisition contingent payments [n]	—	16	—	—	—	—	**16**
	$ 3,885	$ 3,333	$ 2,834	$ 2,645	$ 2,585	$ 21,415	**$ 36,697**

(a) AltaGas enters into contracts to purchase natural gas from various suppliers for its utilities. These contracts are used to ensure that there is an adequate supply of natural gas to meet the needs of customers and to minimize exposure to market price fluctuations. Gas purchase commitments are valued based on fixed prices and forward prices, which may fluctuate significantly from period to period.

(b) AltaGas enters into contracts to purchase LPGs for its operations at RIPET and Ferndale. These contracts are used to ensure that there is an adequate supply of LPGs to meet shipment commitments and to minimize exposure to market price fluctuations. LPG purchase commitments are valued based on forward prices, which may fluctuate significantly from period to period.

(c) As part of the Petrogas Acquisition (Note 3), AltaGas acquired contracts to purchase crude oil and condensates for marketing, sale, and distribution. These contracts are used to ensure that there is an adequate supply of crude oil and condensates to meet the needs of customers and to minimize exposure to market price fluctuations. Crude oil and condensate commitments are valued based on forward prices, which may fluctuate significantly from period to period.

(d) AltaGas enters into contracts to purchase electricity from various suppliers for its non-utility business. Electricity purchase commitments are based on existing fixed price and fixed volume contracts, and include US$21 million of commitments related to renewable energy credits.

(e) In 2014, AltaGas' Blythe facility entered into a Long-Term Service Agreement (LTSA) with a service pro to complete various upgrade and maintenance services on the Combustion Turbines (CT) at the Blythe facility over 124,000 equivalent operating hours per CT, or 25 years, whichever comes first. The LTSA has variable fees on a per equivalent operating hour basis. As at December 31, 2020, the total commitment was $153 million payable over the next 15 years, of which $44 million is expected to be paid over the next 5 years.

(f) In 2017, AltaGas entered into a 12-year service agreement commencing in 2019 for tug services to support the marine operations of RIPET.

(g) In 2015, AltaGas entered into a Project Agreement that contemplated the sublease of lands from Ridley Terminals Inc. (RTI), provision of certain terminal services, and access to RTI's terminal facilities to support RIPET's operations for an initial term of 20 years ending in 2039. In 2019, RILE LP and RTI executed a Terminal Services Agreement that formalized the concepts outlined in the Project Agreement.

(h) Pipeline and storage commitments include minimum payments for natural gas transportation, storage and peaking contracts that have expiration dates through 2044.

(i) Commitments for capital projects. Estimated amounts are subject to variability depending on the actual construction costs.

(j) Operating leases include lease arrangements for office space, office equipment, field equipment, rail cars, aquatic use, vehicles, power and gas facilities, transmission and distribution assets, and land.

(k) Environmental commitments include committed payments related to certain environmental response costs.

(l) Represents the estimated future payments of WGL merger commitments that have been accrued but not paid. In addition, there are certain additional merger commitments that were and will be expensed as the costs are incurred, including the investment of up to US$70 million over a ten year period to further extend natural gas service, investment of US$8 million for leak mitigation within three years, which has been paid as of December 31, 2020, hiring damage prevention trainers in each jurisdiction for a total of US$2 million over five years, and developing 15 megawatts of either electric grid energy storage or Tier 1 renewable resources within five years after the merger closed. As at December 31, 2020, the cumulative amount of merger commitments that have been expensed but not yet paid is approximately US$12 million.

(m) As part of the Petrogas Acquisition (Note 3), AltaGas acquired a commitment to purchase land as part of an agreement for it's continued use of the Ferndale terminal.

(n) Contingent payments of up to $16 million are expected to be paid related to the Petrogas Acquisition (Note 3).

Guarantees

AltaGas has guaranteed payments primarily for certain commitments on behalf of some of its subsidiaries. AltaGas has also guaranteed payments for certain of its external partners. As at December 31, 2020, AltaGas has no guarantees to external parties.

Contingencies

AltaGas and its subsidiaries are subject to various legal claims and actions arising in the normal course of business. While the final outcome of such legal claims and actions cannot be predicted with certainty, the Corporation does not believe that the resolution of such claims and actions will have a material impact on the Corporation's consolidated financial position or results of operations.

Antero Contract

In June 2019, a jury trial was held in the County Court for Denver, Colorado to consider a contractual dispute relating to gas pricing between Washington Gas and WGL Midstream (together, the Companies) and Antero Resources Corporation (Antero). Following the trial, the jury returned a verdict in favor of Antero for approximately US$96 million, of which approximately US$11 million was against Washington Gas with the remainder against WGL Midstream. Following the official entry of the judgment, the Companies filed an appeal on August 16, 2019. On December 10, 2020, the Colorado Court of Appeals issued an unpublished opinion affirming the judgement of the trial court. No further appeal has been taken. The judgment was paid in full in February 2021, and a satisfaction has been filed with the court.

AltaGas recorded a net reduction to the acquired working capital of WGL of approximately US$45 million to account for the verdict in favor of Antero net of tax and other expected recoveries. Expected recoveries include a $18 million receivable recorded in "long-term investments and other assets" on the Consolidated Balance Sheets for amounts expected to be recovered under a commercial arrangement with a third party and $7 million recorded in "regulatory assets" on the Consolidated Balance Sheets for amounts expected to be recovered from customers in future periods through the rate-setting process.

During 2020, AltaGas entered into an Escrow Agreement and a Letter Agreement with the third party to share the cost related to the judgment. Following the execution of the agreements, $9 million funded by the third party was deposited into an escrow fund and recorded as restricted cash in "accounts receivable". The previously recorded receivable was reduced accordingly.

Maryland Show-Cause Order

Following the National Transportation and Safety Board (NTSB) hearing that examined the August 10, 2016, explosion and fire at an apartment complex in Silver Spring, Maryland, on September 5, 2019, the PSC of MD ordered Washington Gas to (i) provide a detailed response to the NTSB's probable cause findings and (ii) provide evidence regarding the status of a 2003 mercury regulator replacement program and, if the program was not completed, to show cause why the PSC of MD should not impose a civil penalty on Washington Gas (Show-Cause Order). Following several hearings throughout the course of 2019 and

2020, on December 18, 2020, the PSC of MD found that Washington Gas failed to file annual reports informing the PSC of MD of the status of Washington Gas' program and imposed a US$750,000 penalty on Washington Gas for reporting violations. The PSC of MD ruled that the NTSB probable cause finding constituted hearsay and could not be admitted into the record of the case and did not undertake its own inquiry into the source of the explosion. The PSC of MD did not make any safety-related findings in the case but did find that Washington Gas made an enforceable regulatory commitment to replace all mercury regulators. The US$750,000 penalty was paid in January 2021 and Washington Gas believes that there is no additional liability as a result of the ruling from the PSC of MD. In its December 18, 2020 order, the PSC of MD also found that Washington Gas's proposed implementation plan to replace all remaining mercury regulators within five years of completing an mercury regulator survey adequately addresses the need to replace all remaining mercury regulators in Maryland, and is in the public interest. The costs of the proposed implementation program are not yet known, and the recovery of these costs must be deferred until a future rate case.

30. Related Party Transactions

In the normal course of business, AltaGas transacts with its subsidiaries, affiliates and joint ventures. Amounts due to or from related parties on the Consolidated Balance Sheets were measured at the exchange amount and were as follows:

As at		**December 31, 2020**		December 31, 2019
Due from related parties				
Accounts receivable [a]	**$**	**5**	$	18
Long-term investments and other assets [b]		**—**		45
	$	**5**	$	63
Due to related parties				
Accounts payable [c]	**$**	**3**	$	3

(a) Receivables from joint ventures and from a former affiliate of Petrogas.

(b) For the period prior to December 15, 2020, AltaGas provided a $100 million interest bearing secured loan facility to Petrogas of which $50 million was committed. The facility was available for Petrogas to draw upon from time to time for general corporate purposes until the close of the Petrogas Acquisition on December 15, 2020.

(c) Payables to a joint venture and a former affiliate of Petrogas.

The following transactions with related parties have been recorded on the Consolidated Statements of Income for the years ended December 31, 2020 and 2019:

Year Ended December 31		**2020**		2019
Revenue [a]	**$**	**92**	$	115
Cost of sales [b]	**$**	**12**	$	13
Operating and administrative expenses (recoveries) [c]	**$**	**1**	$	(2)
Other income [d]	**$**	**3**	$	3

(a) In the ordinary course of business, AltaGas sold commodities to TriSummit Utilities Inc. and Petrogas.

(b) In the ordinary course of business, AltaGas obtained natural gas storage services from a joint venture as well as incurred costs related to the sale of natural gas liquids to affiliates.

(c) Subsequent to the close of the Petrogas Acquisition, certain operating and administrative expenses were paid on behalf of Petrogas by a former affiliate. In 2019, administrative cost recoveries included those from joint ventures and from TriSummit Utilities Inc. under a Transition Services Agreement.

(d) Interest income from loans to Petrogas (secured loan facility) prior to the acquisition of Petrogas.

31. Supplemental Cash Flow Information

The following table details the changes in operating assets and liabilities from operating activities:

	Year Ended December 31	
	2020	2019
Source (use) of cash:		
Accounts receivable	**$ 21**	$ 168
Inventory	**32**	(2)
Other current assets	**1**	(85)
Regulatory assets - current	**(33)**	7
Accounts payable and accrued liabilities	**(41)**	(280)
Customer deposits	**(2)**	(17)
Regulatory liabilities - current	**(55)**	34
Risk management liabilities - current	**(1)**	1
Other current liabilities	**4**	(6)
Other operating assets and liabilities	**(129)**	(52)
Changes in operating assets and liabilities	**$ (203)**	$ (232)

The following table details the changes in non-cash investing and financing activities:

	Year Ended December 31	
	2020	2019
(Increase) of balance:		
Common shares issued under DRIP	**$ (6)**	$ (68)
Net right-of-use assets obtained in exchange for new operating lease liabilities	**$ 227**	$ 50
Net right-of-use assets obtained in exchange for new finance lease liabilities	**$ 6**	$ 5
Capital expenditures included in accounts payable and accrued liabilities	**$ (33)**	$ (7)

The following cash payments have been included in the determination of earnings:

	Year Ended December 31	
	2020	2019
Interest paid (net of capitalized interest)	**$ 276**	$ 352
Income taxes paid	**$ 23**	$ 67

The following table is a reconciliation of cash and restricted cash balances:

As at December 31	**2020**	2019
Cash and cash equivalents	**$ 32**	$ 57
Restricted cash holdings from customers - current	**3**	4
Restricted cash holdings from customers - non-current	**2**	4
Restricted cash included in prepaid expenses and other current assets [(a)]	**9**	25
Restricted cash included in long-term investments and other assets *(note 12)* [(a)]	**19**	32
Restricted cash included in accounts receivable *(note 29)*	**9**	—
Cash, cash equivalents, and restricted cash per Consolidated Statements of Cash Flows	**$ 74**	$ 122

(a) The restricted cash balances included in prepaid expenses and other current assets and long-term investments and other assets relate to Rabbi trusts associated with WGL's pension plans (see Note 28).

32. Segmented Information

AltaGas owns and operates a portfolio of assets and services used to move energy from the source to the end-user. In 2020, AltaGas revised its reportable segments to align with the structure of its business following asset sales completed as part of its 2019 asset monetization program. As a result of these changes, AltaGas has refocused on its core Utilities and Midstream segments. Consistent with Management's strategic view of the business and the basis on which it assesses performance and allocates resources, beginning in 2020, AltaGas has two operating segments: Utilities (which now includes the WGL retail marketing business) and Midstream. These operating segments have not been aggregated in the determination of AltaGas' reportable segments. All other assets are included in the Corporate/Other segment. Prior period segment information has been restated to conform to the current reporting segment presentation.

The following describes the Corporation's reporting segments:

Utilities	▪ rate-regulated natural gas distribution assets in Michigan, Alaska, the District of Columbia, Maryland, and Virginia; ▪ rate-regulated natural gas storage in the United States; and ▪ sale of natural gas to residential, commercial and industrial customers in Washington D.C., Maryland, Virginia, Delaware, Pennsylvania and Ohio.
Midstream	▪ NGL processing and extraction plants; ▪ natural gas storage facilities; ▪ liquefied petroleum gas (LPG) terminals; ▪ transmission pipelines to transport natural gas and NGL; ▪ natural gas gathering lines and field processing facilities; ▪ purchase and sale of natural gas; ▪ natural gas and NGL marketing; ▪ marketing, storage and distribution of wellsite fluids and fuels, crude oil and condensate diluents; and ▪ interest in a regulated pipeline in the Marcellus/Utica gas formation;
Corporate/ Other	▪ the cost of providing corporate services, financing and general corporate overhead, investments in certain public and private entities, corporate assets, financing other segments and the effects of changes in the fair value of certain risk management contracts; and ▪ a small portfolio of remaining power assets, certain of which are pending sale.

The following table provides a reconciliation of segment revenue to the disaggregated revenue table disclosed in Note 24:

	Year Ended December 31, 2020			
	Utilities	**Midstream**	**Corporate/ Other**	**Total**
External revenue *(note 24)*	**$ 3,817**	**$ 1,635**	**$ 135**	**$ 5,587**
Intersegment revenue	**—**	**1**	**—**	**1**
Segment revenue	**$ 3,817**	**$ 1,636**	**$ 135**	**$ 5,588**

	Year Ended December 31, 2019			
	Utilities	Midstream	Corporate/ Other	Total
External revenue *(note 24)*	$ 4,044	$ 1,228	$ 223	$ 5,495
Intersegment revenue	—	32	—	32
Segment revenue	$ 4,044	$ 1,260	$ 223	$ 5,527

Geographic Information

Year Ended December 31		2020		2019
Revenue [a]				
Canada	$	**1,512**	$	1,245
United States		**4,053**		4,325
TOTAL	**$**	**5,565**	$	5,570

(a) Operating revenue from external customers, excluding unrealized gains or losses on risk management contracts.

As at December 31		2020		2019
Property, plant and equipment				
Canada	$	**3,149**	$	2,682
United States		**7,739**		7,443
TOTAL	**$**	**10,888**	$	10,125
Operating right-of-use assets				
Canada	$	**293**	$	85
United States		**79**		85
TOTAL	**$**	**372**	$	170

The following tables show the composition by segment:

	Year Ended December 31, 2020				
	Utilities	Midstream	Corporate/ Other	Intersegment Elimination [a]	Total
Segment revenue *(note 24)*	$ **3,817**	$ **1,636**	$ **135**	$ **(1)**	$ **5,587**
Cost of sales	**(2,156)**	**(994)**	**(29)**	**1**	**(3,178)**
Operating and administrative	**(942)**	**(254)**	**(71)**	**—**	**(1,267)**
Accretion expenses	**—**	**(4)**	**(1)**	**—**	**(5)**
Depreciation and amortization	**(295)**	**(86)**	**(33)**	**—**	**(414)**
Provisions on assets *(note 6)*	**(1)**	**(105)**	**(3)**	**—**	**(109)**
Income from equity investments	**5**	**44**	**—**	**—**	**49**
Other income	**259**	**24**	**23**	**—**	**306**
Foreign exchange gains (losses)	**—**	**(26)**	**30**	**—**	**4**
Interest expense	**—**	**—**	**(274)**	**—**	**(274)**
Income (loss) before income taxes	$ **687**	$ **235**	$ **(223)**	$ **—**	$ **699**
Net additions (reductions) to:					
Property, plant and equipment[b]	$ **740**	$ **136**	$ **(51)**	$ **—**	$ **825**
Intangible assets	$ **3**	$ **3**	$ **4**	$ **—**	$ **10**

(a) Intersegment transactions are recorded at market value.

(b) Net additions to property, plant, and equipment, and intangible assets may not agree to changes reflected in the Consolidated Statements of Cash Flows due to classification of business acquisition and foreign exchange changes on U.S. assets.

	Year Ended December 31, 2019				
	Utilities	Midstream	Corporate/ Other	Intersegment Elimination [a]	Total
Segment revenue *(note 24)*	$ 4,044	$ 1,260	$ 223	$ (32)	$ 5,495
Cost of sales	(2,448)	(760)	(51)	32	(3,227)
Operating and administrative	(960)	(213)	(126)	—	(1,299)
Accretion expenses	—	(4)	(1)	—	(5)
Depreciation and amortization	(276)	(89)	(73)	—	(438)
Provision on assets *(note 6)*	—	(34)	(382)	—	(416)
Income from equity investments	19	122	—	—	141
Other income	29	28	851	—	908
Foreign exchange gains (losses)	—	(5)	4	—	(1)
Interest expense	—	—	(346)	—	(346)
Income before income taxes	$ 408	$ 305	$ 99	$ —	$ 812
Net additions (reductions) to:					
Property, plant and equipment [b]	$ 840	$ 351	$ (2,280)	$ —	$ (1,089)
Intangible assets	$ 23	$ 5	$ 9	$ —	$ 37

(a) Intersegment transactions are recorded at market value.

(b) Net additions to property, plant, and equipment, and intangible assets may not agree to changes reflected in the Consolidated Statements of Cash Flows due to classification of business acquisition and foreign exchange changes on U.S. assets.

The following table shows goodwill and total assets by segment:

	Utilities	Midstream	Corporate/ Other	Total
As at December 31, 2020				
Goodwill	**$ 3,706**	**$ 1,333**	**$ —**	**$ 5,039**
Segmented assets	**$ 13,675**	**$ 7,320**	**$ 537**	**$ 21,532**
As at December 31, 2019				
Goodwill	$ 3,781	$ 161	$ —	$ 3,942
Segmented assets	$ 13,719	$ 5,265	$ 811	$ 19,795

33. Subsequent Events

Subsequent events have been reviewed through February 25, 2021, the date on which these audited Consolidated Financial Statements were issued.

SUPPLEMENTAL QUARTERLY OPERATING INFORMATION

	Q4-20	Q3-20	Q2-20	Q1-20	Q4-19
OPERATING HIGHLIGHTS					
UTILITIES					
Natural gas deliveries - end use (Bcf) (1)	**50.0**	14.2	23.1	66.6	52.2
Natural gas deliveries - transportation (Bcf) (1)	**35.6**	28.3	24.1	40.5	38.3
Service sites (thousands) (2)	**1,672**	1,667	1,664	1,661	1,653
Degree day variance from normal - SEMCO Gas (%) (3)	**(4.4)**	1.8	20.2	(11.4)	4.3
Degree day variance from normal - ENSTAR (%) (3)	**0.2**	(13.3)	0.5	16.1	(20.6)
Degree day variance from normal - Washington Gas (%) (3) (4)	**(10.6)**	233.0	45.6	(17.1)	(3.2)
WGL retail energy marketing - gas sales volumes (Mmcf)	**18,053**	8,393	11,419	21,916	20,131
WGL retail energy marketing - electricity sales volumes (GWh)	**3,257**	3,688	3,151	3,511	3,291
MIDSTREAM					
RIPET export volumes (Bbls/d) (5) (6)	**37,782**	42,736	41,460	35,141	36,394
Ferndale export volumes (Bbls/d) (5) (7)	**33,979**	—	—	—	—
Total inlet gas processed (Mmcf/d) (5)	**1,409**	1,328	1,300	1,393	1,413
Extraction ethane volumes (Bbls/d) (5)	**30,766**	24,681	26,699	29,932	25,951
Extraction NGL volumes (Bbls/d) (5) (8)	**34,199**	32,165	29,946	32,495	32,313
Fractionated volumes (Bbls/d) (5)	**27,026**	25,430	20,641	21,079	20,310
Frac spread - realized ($/Bbl) (5) (9)	**13.95**	15.90	16.61	11.76	16.54
Frac spread - average spot price ($/Bbl) (5) (10)	**9.33**	7.11	3.73	2.04	8.29
Propane Far East Index to Mont Belvieu spread (US$/Bbl) (11)	**15.01**	8.00	8.08	16.23	17.95
Natural gas optimization inventory (Bcf)	**39.3**	51.1	49.1	34.3	41.4

(1) Bcf is one billion cubic feet.

(2) Service sites reflect all of the service sites of the utilities, including transportation and non-regulated business lines.

(3) A degree day is a measure of coldness determined daily as the number of degrees the average temperature during the day in question is below 65 degrees Fahrenheit. Degree days for a particular period are determined by adding the degree days incurred during each day of the period. Normal degree days for a particular period are the average of degree days during the prior 15 years for SEMCO Gas, during the prior 10 years for ENSTAR, and during the prior 30 years for Washington Gas.

(4) In certain of Washington Gas' jurisdictions (Virginia and Maryland) there are billing mechanisms in place that are designed to eliminate the effects of variance in customer usage caused by weather and other factors such as conservation. In the District of Columbia, there is no weather normalization billing mechanism nor does Washington Gas hedge to offset the effects of weather. As a result, colder or warmer weather will result in variances to financial results.

(5) Average for the period.

(6) Represents propane volumes exported at RIPET since facility was placed into service in May 2019.

(7) Represents propane and butane volumes exported at Ferndale for the period after close of the Petrogas Acquisition on December 15, 2020.

(8) NGL volumes refer to propane, butane, and condensate.

(9) Realized frac spread or NGL margin, expressed in dollars per barrel of NGL, is derived from sales recorded by the segment during the period for frac exposed volumes plus the settlement value of frac hedges settled in the period less extraction premiums, divided by the total frac exposed volumes produced during the period.

(10) Average spot frac spread or NGL margin, expressed in dollars per barrel of NGL, is indicative of the average sales price that AltaGas receives for propane, butane and condensate less extraction premiums, before accounting for hedges, divided by the respective frac exposed volumes for the period.

(11) Average propane price spread between FEI and Mont Belvieu TET commercial index for the period beginning May 2019.

OTHER INFORMATION

DEFINITIONS

Bbls/d	barrels per day
Bcf	billion cubic feet
Dth	dekatherm
GJ	gigajoule
GWh	gigawatt-hour
Mcf	thousand cubic feet
Mmcf/d	million cubic feet per day
MW	megawatt
MWh	megawatt-hour
US$	United States dollar

ABOUT ALTAGAS

AltaGas is an energy infrastructure company with a focus on regulated Utilities and Midstream. The Corporation creates value by acquiring, growing, and optimizing its energy infrastructure, including a focus on clean energy sources. For more information visit: www.altagas.ca.

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