

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

FTS.TO - Q2 2016 Fortis Inc Earnings Call

EVENT DATE/TIME: JULY 29, 2016 / 2:30PM GMT



CORPORATE PARTICIPANTS

Janet Craig *Fortis Inc. - VP of IR*

Barry Perry *Fortis Inc. - President & CEO*

Karl Smith *Fortis Inc. - EVP & CFO*

Dave Hutchens *UNS Energy Corporation - President & CEO*

CONFERENCE CALL PARTICIPANTS

Linda Ezergailis *TD Securities - Analyst*

Robert Kwan *RBC Capital Markets - Analyst*

Rob Hope *ScotiaBank - Analyst*

Ben Pham *BMO Capital Markets - Analyst*

Paul Lechem *CIBC World Markets - Analyst*

Andrew Kuske *Credit Suisse - Analyst*

PRESENTATION

Operator

Welcome to the Fortis Q2 2016 conference call and webcast.

(Operator Instructions)

At this time, I would like to turn the conference over to Janet Craig. Please go ahead, Ms. Craig.

Janet Craig - Fortis Inc. - VP of IR

Thanks, Amy, and good morning, everyone. Welcome to Fortis' second quarter results conference call. I'm joined by Barry Perry, President and CEO, and Karl Smith, EVP and CFO, other members of the senior management team, as well as the CEOs of our subsidiaries.

Before we begin today's call, I want to remind you that discussion will include forward-looking information, which is subject to the forward-looking statement contained in the supporting slideshow. All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related US GAAP financial measures in our Q2 MD&A. Also, unless otherwise specified, all financial information referenced is Canadian dollars. With that, I'll turn the call over to Barry.

Barry Perry - Fortis Inc. - President & CEO

Good morning, everyone. This year remains a very active one for Fortis, as we continue to build on our track record of performance and execution, delivering strong results across all meaningful financial and operational measures. At the same time, we have made significant progress towards completing the acquisition of ITC, which remains on track to close by year-end.

Fortis has CAD29 billion of assets, virtually all of which are regulated. Our model of having a low-risk, highly-diversified utility business, where each utility is run autonomously by experienced and local management teams, continues to be a competitive advantage for us. This model supports our growth strategy, which is a simple one: we want to leverage the footprint of our utilities, operating expertise, as well as our reputation and financial strength to develop opportunity. And that is exactly what we are doing.



Across the business, we have invested, managed, and advanced key projects to drive growth in our portfolio, including targeting additional energy infrastructure. Our CAD9.3 billion, five-year capital plan remains on track, and we expect to invest CAD1.9 billion this year. We have history of outperformance on capital investment relative to our plan, so we would expect the numbers in the other years to climb as we have more visibility in future capital projects.

Our capital program is largely focused on transmission and distribution across our utilities, and is reflective of our ongoing capital needs in each business to continue to provide safe, reliable, and cost-effective energy service to our customers. Excluding ITC, we expect our 2016 mid-year rate base to be CAD17.3 billion and to exceed CAD20 billion by 2020, growing at a compound annual growth rate of approximately 4.5%. We have a low-risk, highly executable capital plan, and we continue to have success in bringing major projects in on time and on budget.

In the second quarter, Caribbean utilities completed its 39.7-MW generation expansion project on schedule and below budget, for a total cost of \$79 million. At the same time, our Lower Mainland system upgrade at Fortis BC Energy progressed. The project addresses system capacity and pipeline condition for the gas supply system in the Lower Mainland area of British Columbia. With a total capital cost of more than CAD400 million, we have invested CAD26 million to date. This upgrade is expected to be completed in 2018.

Construction continues on the Tilbury LNG facility expansion in British Columbia. It is our largest ongoing capital project, with an estimated cost of CAD440 million. We have invested CAD368 million to date. We had expected the in-service date to be the end of this year, but it has been pushed back slightly into the first quarter of 2017. The slight delay will not impact the total project cost or any customer commitments related to LNG delivery from the facility.

An important factor in our continued growth is finding incremental investments in our existing franchises, and I want to update you on the progress we're making here. Our recent acquisition of Aitken Creek is a great example of this strategy in action. This transaction closed on April 1 and contributed CAD4 million in earnings this quarter. Purchased for \$266 million, Aitken Creek is an integral part of the Western Canada's natural gas transmission network and is the only underground gas storage facility in British Columbia.

This acquisition is the right fit for us, both operationally and strategically, and positions us well to further expand our gas infrastructure in British Columbia. It is also uniquely positioned to benefit from the development of proposed LNG export projects, where it could provide balancing services to suppliers and LNG exporters.

The proposed pipeline expansion project for Woodfibre LNG continues to progress. FortisBC Energy received environmental approval from the Squamish First Nation during the second quarter. The Woodfibre LNG project itself has also achieved significant milestones, including signing a Heads of Agreement for the offtake of 1 million tons per year of LNG for 25 years starting in 2020. Woodfibre LNG is targeting a final investment decision by the end of 2016.

As a reminder, this project is approximately CAD600 million and is not currently reflected in our base capital plan. We continue to see the potential for further expansion at our Tilbury facility. In May, we announced a 20-year take-or-pay fuel service agreement with Hawaiian Electric. This agreement had a number of conditions, including the approval of the proposed merger between HECO and NextEra. Earlier this month, the Hawaiian state regulator denied the merger, and HECO has terminated our agreement. Notwithstanding this setback, the further Tilbury LNG expansion remains an important opportunity for Fortis, and we remain optimistic about further developments at the site.

The New York Transco project continues to advance, with FERC approving rates earlier this year, and three projects being placed in service during the second quarter. Fortis grows both organically and by acquisition and has successfully executed several key acquisitions since 2004. These acquisitions complement and diversify our portfolio, expand our rate base, and reduce overall regulatory risk.

The acquisition of ITC is another great example of our acquisition strategy in action. As the largest independent fully regulated electric transmission utility in the US, the acquisition of ITC is a singular opportunity to diversify our business in terms of regulatory jurisdiction, business risk profile, and regional economic mix. ITC reported its second quarter results yesterday, and they continue to demonstrate strong financial and operational performance, including operating earnings of \$0.58 per diluted common share for the quarter, capital investment of about \$375 million for the first half of the year, and rate base and construction work in progress of \$5.7 billion.



We continue to expect the deal to be nicely accretive in 2017. The strength and breadth of this business combination provides the expertise and financial capacity to further capitalize on investment opportunities within our franchise regions and the scale to grow our business further. Let me remind you of the scale of the business combination of Fortis and ITC. Enterprise value is approximately CAD42 billion, and our 2017 combined capital expenditures are expected to be approximately CAD2.9 billion, and our 2017 midyear rate base is expected to be about CAD26 billion.

Turning to milestones and timelines, we continue to expect that the ITC transaction will close by the end of the year, and we have made significant progress in this regard. To date, we have received the necessary regulatory approval from both Fortis and ITC shareholders; secured the minority investment in ITC with GIC; and have filed all regulatory applications. We're working closely with the regulators to advance these regulatory dockets. Additionally, we completed our registration with the SEC; obtained approval to list our shares on the New York Stock Exchange; and received approval from the Committee on Foreign Investment in the US for the transaction.

In the second half of the year, we will continue to advance the process for closing the transaction including securing permanent long-term debt financing and working to obtain the necessary state and federal approvals. I am proud of the team, both Fortis and ITC, and the tremendous progress we have made in the last six months.

To wrap up, we are well-positioned for sustained growth. Our business is in excellent shape, is very low-risk, and well-diversified. We expect continued growth in our business in 2016, and results in 2017 will benefit from the expected outcome of the TEP general rate case, the impact of ITC, and the continued growth of our underlying business. We have the financial strength and flexibility to maintain predictable dividend growth.

Our track record for dividend growth, the best of any public company in Canada at 42 consecutive years, is expected to continue with 6% average annual dividend growth through 2020. We expect long-term value creation from the execution of our capital plan; the balance of strength of our diversified portfolio businesses; as well as growth opportunities from additional infrastructure investment beyond our base plan. Karl?

Karl Smith - Fortis Inc. - EVP & CFO

Thanks, Barry. Good day, everybody. As Barry mentioned, our second quarter 2016 financial results were strong and in line with our expectations. Adjusted earnings for the quarter were higher by \$8 million, or almost 7% compared to the same quarter last year. Adjusted earnings per share of CAD0.46 for the quarter was higher by CAD0.02, or nearly 5%.

On a year-to-date basis, adjusted earnings were higher by CAD19 million, or 6%, and earnings per share was higher by CAD0.04 at CAD1.13. Cash flow from operations was comparable for the quarter and the year-to-date period, and our capital program remains on track. As you can see from the waterfall chart, earnings per share for the quarter reflects favorable foreign exchange; the timing of quarterly earnings at FortisBC Electric; a contribution from Aitken Creek Gas Storage; and stronger performance from most of our other regulated utilities.

Removing the benefit of foreign exchange, both Central Hudson and UNS grew earnings year-over-year. Central Hudson benefited from its rates being reset July 1 last year, as a result of a three-year rate settlement. A number of factors drove the growth at UNS, including above-average temperatures in the quarter. For a utility that operates under an historical test year regulatory construct, having earnings flat to growing at this point in the cycle is very positive.

UNS' last rate order was in 2013, using a 2011 test year. As you can see from the waterfall, we did have lower earnings at FortisAlberta, reflecting the economic downturn in Alberta. The elimination of the contribution of operating earnings from the commercial real estate and hotel assets due to its sale in 2015 dampened earnings growth this quarter compared to last year and impacted earnings per share by about CAD 0.03.

Moving to the next slide, a somewhat similar story plays out for the six months ended June 30. On a year-to-date basis, results were favorably impacted by foreign exchange. Other factors that contributed to growth in adjusted earnings per share were a higher allowance for funds used during construction at FortisBC Energy related to construction on the Tilbury LNG project; contribution from Aitken Creek during the second quarter; and contribution from the Waneta expansion project for the full six months of this year. The timing of quarterly earnings at FortisBC Electric and the sale of commercial real estate and hotel assets in 2015 tempered earnings per share growth year-over-year.

Our strong financial metrics, driven by increasing earnings and strong cash flows, as well as a conservative capital structure, support our financial capacity and our investment-grade credit ratings. Our consolidated credit facilities totaled CAD3.5 billion, of which CAD2.1 billion was unused at the end of the second quarter. Year-to-date, we have issued over CAD350 million in long-term debt, including FortisBC Energy's dual tranche of 10-year, CAD150 million, and 30-year CAD150 million unsecured debentures.

We have a light near-term debt maturity profile, with more than 90% of our long-term debt, other than credit facility borrowings, having maturities beyond five years. Specifically, as of June 30, 2016, we expect consolidated fixed-term maturities and repayments to average approximately \$260 million annually over the next five years. Our financial strength and capacity positions us well to fund both new investment opportunities and organic growth.

Turning to the financing of the ITC transaction, with the planned issuance of \$2 billion in debt this fall, the acquisition financing will be substantially complete. Related to the debt raise, in order to provide some certainty around this certain component of the economics of the transaction, and to be opportunistic in the historically low interest rate environment, we entered into interest rate swap contracts totaling \$1.25 billion in the second quarter. This hedges a significant portion of the cash flow risk associated with the debt issuance and has the effect of reducing a significant portion of interest rate risk associated with the transaction.

Turning to regulatory matters, we continue to focus on maintaining constructive regulatory relationships and completing ongoing regulatory proceedings across our existing utilities, in addition to those related to the acquisition of ITC. As you can see from the list of significant filings and applications, our regulatory calendar remains very active. The most significant regulatory proceeding underway is Tucson Electric Power's general rate application, which requests new retail rates effective January 1, 2017, using the year ended June 30, 2015 as the historical test year. This proceeding is progressing, with intervenor direct testimony, including Commission staff testimony, filed in June.

In response, TEP filed rebuttal testimony this past week. The hearing is scheduled to begin in late August, and it is expected to last two to three weeks. During the second quarter, Newfoundland Power received a decision on its general rate application, which resulted in a decrease in its allowed return on equity from 8.8% 8.5% on a 45% common equity thickness, and this is effective January 1, 2016.

A decision on FortisBC Energy's generic cost of capital application for the 2016 benchmark ROE and common equity thickness is expected in the third quarter of 2016. Generic cost of capital proceedings are ongoing in Alberta to set the allowed ROE and common equity thickness for 2016 and 2017, and a decision is expected before the end of 2016. That concludes my remarks. I'll now turn the call back to Barry.

Barry Perry - Fortis Inc. - President & CEO

Just to close off, we operate in jurisdictions with constructive regulatory frameworks and maintain good relationships with our regulators. We are firmly committed to delivering dividend growth and have provided dividend growth guidance through 2020. Our balance sheet is strong, with sufficient cash flow to fund our capital requirements. Beyond value creation in our base capital plan and growth opportunities in infrastructure in our franchise regions, we also very successful in creating value from strategic acquisitions.

We created value with acquisition of Central Hudson. We created value with the acquisition of UNS. And we expect to create further value with acquisition of ITC. We will continue to focus on delivering growth across all our utility operations, earning our allowed returns and delivering safe, reliable, and cost-effective energy solutions to our customers. With that, I'll turn the call over to Janet.

Janet Craig - Fortis Inc. - VP of IR

Thanks, Barry. This concludes the presentation. I will now ask Amy to open the call to Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now conduct a question-and-answer period.

(Operator Instructions)

Our first question today comes from the line of Linda Ezergailis of TD Securities. Your line is open.

Linda Ezergailis - TD Securities - Analyst

Thank you. I have a question on your TEP rebuttal testimony. I see you've lowered your revenue requirement to CAD101 million from CAD110 million. Is that substantially driven by a slightly lower ROE, or is there some other factors that come into play?

Barry Perry - Fortis Inc. - President & CEO

Linda, that is part of it, but I am going to ask Dave -- I have the guy on the phone who could give you a detailed answer on that, it's Dave Hutchins. Dave, do you want to just chip in on that?

Dave Hutchens - UNS Energy Corporation - President & CEO

Yes, Linda, most of that is lowering that ROE from the request of 10.35% to 10%, which is our current ROE, as well as some adjustments in the fair value increment that was dropped about 25 or 30 basis points. And then there's also some other minor adjustments, including some jurisdictional allocations between plant used for retail rate base and for jurisdictional rate base, and then some adjustments in depreciation lives.

Linda Ezergailis - TD Securities - Analyst

Okay, thank you, and how confident are you that this will be accepted, or is there going to be anything contentious in the hearing?

Barry Perry - Fortis Inc. - President & CEO

Maybe, Dave, I will jump in there and you can add some flavor, but, Linda, my sort of sense of this is we're just in the middle part of the process, so we are working our way through with the intervenors and with the regulatory process. It is hard to predict, but we are confident that we have a good application in front of the commission at this point in time. David?

Dave Hutchens - UNS Energy Corporation - President & CEO

Yes, I would just add that we still expect a pretty rigorous debate, not necessarily around revenue requirements, but as our smaller company, UNS Electric, showed us, there is quite a bit of debate around rate design, and that metered in aspects that we have asked to change. It will be -- there will be a lot of discussion and debate in the hearings, but we have a very good case that we've put on.

Linda Ezergailis - TD Securities - Analyst

That's helpful context. Thank you. Now moving onto your financial planning and risk mitigation, can you give us some more detail on the swap that you'd entered into? Did you lock in a certain interest rate, or can you describe some parameters around that?



Karl Smith - Fortis Inc. - EVP & CFO

Yes, Linda, this is Karl. What we did is locked in two tranches, CAD750 million 10-year, CAD500 million five-year, taking advantage of the post-Brexit low level of interest rates, and they are contingent forward locks, so if the deal doesn't go ahead, then they just fall away, but of course the thing that can't be locked in is the spread. If the spreads behave or are consistent with the way they look today, it will result in financing that I would say nicely lower than what we assume in our accretion assumptions.

Linda Ezergailis - TD Securities - Analyst

Okay. That's helpful context. And I think in the past you talked about revisiting your US dollar exposure and the potential for hedging it after certain milestones had been met in terms of approvals. Have updated your thinking around that, or not?

Karl Smith - Fortis Inc. - EVP & CFO

Not really. We haven't updated our thinking. When we last spoke, our thinking would be the same as then, but we are waiting until we get further through the process, and primarily once we get past the FERC approval process, then we will turn our attention. I would think that is a fourth quarter work stream for us, Linda.

Linda Ezergailis - TD Securities - Analyst

Okay. Great. Thank you.

Barry Perry - Fortis Inc. - President & CEO

Thank you, Linda.

Operator

Your next question comes from the line of Robert Kwan of RBC Capital. Your line is open.

Robert Kwan - RBC Capital Markets - Analyst

Good morning. Just, I guess, now you've got the rate lock here that sounds like it's worked in your favor here, I'm just wondering, Barry, you used the term for ITC nicely accretive in 2017, I'm just wondering is there any update to the accretion guidance, taking into account minority early sale, the ROE, and bonus depreciation?

Barry Perry - Fortis Inc. - President & CEO

No. No update, Robert, other than I said nicely, so clearly last quarter, a few things were moving away from us, now this quarter, a few things are moving in our favor, and I just feel positive about where we are. And any large transaction given the timelines that it takes to get approved in our sector, things move around a little bit as you go to closing, so this interest rate situation has helped us a lot, and we're feeling very positive at this point in time.



Robert Kwan - RBC Capital Markets - Analyst

Okay. Just on TEP and the transmission refunds. So I think you had accrued for \$8 million in the first quarter and then you had the disclosure that you recalculated that down to \$3 million. Was there anything, then, in the second quarter where you reverse first the prior accrual, or are you going to wait for that to be fully approved at the FERC?

Barry Perry - Fortis Inc. - President & CEO

We are going to wait. We have not reversed any of the charges, Robert, so that obviously was a little bit of a surprise thing for us, and related to things from long ago, so we're obviously working our way through the process, and we'll see how it develops over the second half.

Robert Kwan - RBC Capital Markets - Analyst

Okay, and the last question here is just on Aitken Creek. Just want to get a bit of an understanding on how it is generating revenue. I don't know if you can give a bit of a split, there was some disclosure that you have related third-party transaction, so it looks like the sale went to the utility so contracted there. But then you also have the unrealized mark-to-market, so looks like there is a proprietary side to what you are doing. Are you able to give a little bit of a split between how much is contracted and how much is what you guys are doing on your own book?

Karl Smith - Fortis Inc. - EVP & CFO

Robert, it is Karl. The inter-company aspect of that is, and the percentage will change depending on market prices and so on, but half of these stories is the lease to FortisBC Energy, and has been for quite a while. On the proprietary side, there is some proprietary training and so on, but we are taking a very conservative, low-risk approach to that. We are matching the physical injection and storage and trading with financial instruments, so the mark-to-market will be there on a quarterly basis. It is hard to predict what the quantum will be, but at the same time, because of the approach that we take, the underlying value of the inventory moves in the same direction. Unfortunately, due to the accounting rules, we cannot book that. So the approach we take us to make sure the economic value is intact throughout all of the proprietary trading aspects.

Robert Kwan - RBC Capital Markets - Analyst

Okay, is it just so I'm clear on the proprietary side you are buying say spot gas into storage, and you have immediate forward-sell to lock in the profit? Is that correct?

Karl Smith - Fortis Inc. - EVP & CFO

That is right, is sometimes we will turn around and sell the gas right away, and then enter into what is referred to as a park and loan transaction, where we basically charge to store the gas that we've just sold.

Robert Kwan - RBC Capital Markets - Analyst

Okay, but you weren't able to get hedge accounting for that activity?

Karl Smith - Fortis Inc. - EVP & CFO

Not for any underlying increase in the value of the inventory, no.



Robert Kwan - RBC Capital Markets - Analyst

And that is what is creating the mark-to-market?

Karl Smith - Fortis Inc. - EVP & CFO

Yes.

Robert Kwan - RBC Capital Markets - Analyst

Okay. Perfect. Thank you.

Barry Perry - Fortis Inc. - President & CEO

Thank you, Robert.

Operator

Your next question today comes from Rob Hope of Scotiabank. Your line is open.

Rob Hope - ScotiaBank - Analyst

Yes, thank you. Maybe just a question on your LNG expansion project in BC. With the challenges with the Hawaii agreement, have you begun to potentially look for other tenants for that expansion?

Barry Perry - Fortis Inc. - President & CEO

Robert, it's Barry, yes, for sure. We actually were already in some discussions because the site itself could have been expanded beyond what we were contemplating with Hawaiian Electric, so we have had discussions. It's a unique site and we do believe that it has certain advantages, it's very close to Asia, and much closer to the Gulf Coast, from a shipping perspective. We remain optimistic. I will say it is a setback with HECO not going forward. There's some possibility that HECO may consider smaller scale LNG imports, they'll have to go through some processes to determine if they're going to come forward with that, but there are other parties that are interested in the site. In BC, I just want to remind everyone, we do own, I would say the lion's share of gas infrastructure in the province right now, and whether it be Woodfibre, LNG, or Tilbury, or other possible pipeline upgrades related to gas getting out of the province, I think Fortis will be a player in further investment in the province there.

Rob Hope - ScotiaBank - Analyst

Okay. That's helpful, and maybe just a follow-up on the ITC. With the recent ALJ decision, have you potentially revised your above 11% ROE for ITC?

Barry Perry - Fortis Inc. - President & CEO

No, we have not. We are comfortable where we are on that. We have a lot of moving parts around these ALJ decisions, and it is a moment in time decision, and we're comfortable that our assumptions, which we stated when we announced the transaction that we were using 11.35%, we're comfortable with that at this point.



Rob Hope - ScotiaBank - Analyst

All right. That's helpful. Thank you.

Operator

Your next question today comes from the line of Ben Pham of BMO. Your line is open.

Ben Pham - BMO Capital Markets - Analyst

Okay, thanks. Morning, everybody.

Barry Perry - Fortis Inc. - President & CEO

Morning, Ben.

Ben Pham - BMO Capital Markets - Analyst

Morning. I'm just wondering if your long-term plan and when you set your 6% growth targets, were you anticipating some of the ROEs to compress, as what we're seeing out there right now, as some of the decisions have now come out?

Barry Perry - Fortis Inc. - President & CEO

Ben, when we came up with dividend guidance, we would have factored in many different assumptions and success in cost of capital hearings, other regulatory hearings, CapEx, all of these things are part of that analysis. So yes, we would have used -- at the time we would have used our base level ROEs that were in place at the time, so we wouldn't have predicted lower ROEs.

That being said, the business is growing, there are other offsetting factors if you expect ROEs to go down. We remain very comfortable with our guidance at this point. ITC obviously further supports our position there as well.

Ben Pham - BMO Capital Markets - Analyst

Okay, and I'm just wondering in your stress test, and I appreciate there is a lot of factors driving it --

Barry Perry - Fortis Inc. - President & CEO

Ben, obviously we review this with our Board on a fairly regular basis. We are very comfortable with the guidance and under various sensitivities around these assumptions that we've used.

Ben Pham - BMO Capital Markets - Analyst

Okay. I just wanted to touch base on one of your exhibits on the CapEx. For the next couple of years it drops modestly into 2019 and 2020. And I'm just wondering is that driven, just broad-based CapEx declines, or one segment and I'm wondering why is you sustaining CapEx kind of flatter coming down versus moving higher?



Barry Perry - Fortis Inc. - President & CEO

Well, generally, Ben, in the sector, frankly most utilities, when they predict out their five-year CapEx plans, show a declining curve on CapEx. It's usually, we have good visibility on the next two or three years, but then years four and five tend to trail off. Frankly, we've never seen that happen in our business, so that's why we say we remain fairly confident that the outer years in our capital program will be higher CapEx than we are showing in the five-year chart at this point in time.

We are showing some declines, like for example at FortisBC Energy in those outer years. ITC, in some of their capital planning, will show some declines as well. We don't see those things happening, and as we move forward each year, we will continue to provide those forecasts, and if the past is any representative of the future, you won't see those declines, but that is based on the information we have today. Sustaining CapEx, I'm not quite sure why there would be a small decline, but it should be fairly stable over time.

Ben Pham - BMO Capital Markets - Analyst

Okay. Thanks for that, and just one quick one on where are you with the W project right now? In terms of milestones, and anything since the investor day when you announced that?

Barry Perry - Fortis Inc. - President & CEO

We continue to the work with our province and our partners there to progress the project, Ben, and nothing to report at this point, but we are very much focused on that project. It's a large project, overall. Our share of it is essentially about one quarter of the capital cost of the project, so what is it like a CAD1.2 billion, CAD1.3 billion project overall, but it's a very exciting project to connect the First Nation's community in northern Ontario, so we're excited about it, but nothing to add at this point.

Ben Pham - BMO Capital Markets - Analyst

Okay. That's helpful. Thanks, everybody.

Barry Perry - Fortis Inc. - President & CEO

Thanks, Ben.

Operator

Your next question today comes from the line of Paul Lechem of CIBC. Your line is open.

Paul Lechem - CIBC World Markets - Analyst

Thank you. Just a couple of quick follow-ups. First on the LNG, the BC LNG project to Hawaii. Are those discussions there with HECO essentially dead at this point, or is there any opportunity to revisit this? And what about with Hawaii Gas? Have they also confirmed their agreements?

Barry Perry - Fortis Inc. - President & CEO

So, Paul, clearly the deal between NextEra and HECO just obviously ended. HECO announced they terminated our agreement, so we've had a couple of conversations. We had a good relationship with HECO. I will point out that HECO first approached us on a smaller-scale opportunity before the

NextEra situation evolved, so -- there are no fixed plans at this point in time. We're keeping an open dialogue with our colleagues over at Hawaiian Electric, and obviously we are more than interested in continuing to pursue any possible involvement that we could have there, but we are also having conversations with other parties, so that's where that is at this point.

Paul Lechem - *CIBC World Markets - Analyst*

Fair enough, and in terms of the Woodfibre project, is there any opportunity for you to maybe fold in any of the discussions you have with third parties to get the Woodfibre project of the finishing line? My understanding is that the Heads of Agreement they signed was for only about half of the capacity. So have you had any thoughts about actually combining those two projects?

Barry Perry - *Fortis Inc. - President & CEO*

Paul, I would tell you I think the folks at Woodfibre are highly capable people and they are making good progress on the project, and we are focused on our pipeline work that we have to do to be ready to serve that customer, because essentially that's what it is, it's a customer of FortisBC and our focus is making sure they're ready to go with the pipeline. We are very pleased with the progress that Woodfibre made in the last few months on the initiative, and were obviously very hopeful that they will make a FID decision before the end of this year.

Paul Lechem - *CIBC World Markets - Analyst*

Got you. Last question just in the Ontario LDC consolidation, has there been any movement? Have you seen any further discussions in Ontario about potential acquisitions of the municipal LDCs?

Barry Perry - *Fortis Inc. - President & CEO*

I would say no material developments in the quarter there. We are obviously still very interested in that market, and we will be participating in what happens there, but no material developments.

Paul Lechem - *CIBC World Markets - Analyst*

Got you. Thanks very much.

Barry Perry - *Fortis Inc. - President & CEO*

Thanks, Paul.

Operator

(Operator Instructions)

Your next question comes from the line of Andrew Kuske of Credit Suisse. Your line is open.

Andrew Kuske - *Credit Suisse - Analyst*

Good afternoon. I guess my question is for Barry, and it just relates to your thoughts on utility evaluation at this point in time. I ask the question in part because when we see the Canadian 10-year hovering around 1%, spreads are still reasonable, so they haven't blown out for good quality

credits, so meaning things are financeable. How does that translate into your views on just utility valuation? Are we in a new paradigm for valuation, largely valuations going higher, given just the finance ability of comparable investments?

Barry Perry - Fortis Inc. - President & CEO

Hey, Andrew, that's a great question. Valuations are often, if anything, frankly, at Fortis, the opportunity we have to close is for the first time in a long time, US utility valuations are higher than Canadian utility valuations, and I'd rather have it the other way around, frankly, so we have to work hard to encourage more participation in our stock from US shareholders and we are going to do that. We really believe there is a valuation gap right now going on, and we need to close that gap between Fortis and the typical US utility, because we're going to be 60% US once we close ITC. So, yes, it is a concern, obviously, especially when you are acquiring businesses and things but it doesn't seem to be slowing down what is happening in the sector. I probably couldn't offer much more than that.

Andrew Kuske - Credit Suisse - Analyst

And then I guess maybe the natural extension, in a cheap interest rate environment, or a cheap debt environment, is there an opportunity in your conversations with government officials to really spur on infrastructure spending, which you could be involved in and backstopping some initiatives, because winds up being cheaper for your government entities to finance at this point in time in the cycle and winds up being economically stimulative?

Barry Perry - Fortis Inc. - President & CEO

I'm not sure. We've obviously are doing what we need to do in each of our regulated businesses to ensure we're investing appropriately in our infrastructure to serve customers. One thing I do know is with bonus depreciation in the US. The purpose of that was to spur further investment, so our utilities in the US will be looking for further opportunities to deploy the cash flow that they're getting back through bonus depreciation to improve their energy networks.

Essentially, that's what that program was designed to do, so we do have a bit of a focus on that. Overall, we are working with our regulators on a normal basis to invest in our infrastructure, and we've got a pretty big capital program. We think with ITC, we're going to be close to CAD3 billion next year in CapEx. If you assume that runs out over 4 years to 5 years, you're getting up to a five-year CapEx in the CAD12billion-plus range. That gives you a sense of the size that Fortis has become here, so we're working hard, obviously, to put things into the ground. I agree that this the time to do it. The cost of capital and debt is attractive, and we're executing well, in my view, on all of that.

Andrew Kuske - Credit Suisse - Analyst

Okay. That's very helpful. Thank you.

Barry Perry - Fortis Inc. - President & CEO

Thanks, Andrew.

Operator

As there are no further questions, I would now like to turn the call back over to Ms. Craig for closing remarks.



Janet Craig - Fortis Inc. - VP of IR

Thank you, Amy. As we have nothing further to add at this time, we just wanted to thank you for participating in our conference call today. If you have any further questions, please don't hesitate to contact investor relations, and have a great long weekend in the rest of Canada and the US.

Barry Perry - Fortis Inc. - President & CEO

Thanks, everyone.

Janet Craig - Fortis Inc. - VP of IR

Good-bye.

Operator

Thank you for participating in today's conference call. This concludes today's conference. You may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.