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CORPORATE PARTICIPANTS

Barry Perry *Fortis Inc. - President and CEO*

PRESENTATION

Barry Perry *Fortis Inc. - President and CEO*

Good morning, everyone. If you're not here to talk to people from Fortis, then you know you're in the wrong room. Just a reminder of our forward-looking information, definitely we'll be making some forward-looking statements today.

So, Fortis' strategy really hasn't changed for a number of years, really focusing on leveraging our operating model, the footprint of our utilities to develop growth opportunities. And along with that, we are clearly focused on organic growth these days in our business and just recently extended our dividend guidance out to 2023, 6% on average now per year through that period of time.

You see on the bottom of this chart, the various initiatives that we are focused on. You'll notice that public company M&A are not part of that; so maybe get rid of those questions from the beginning. We're not interested in big public company M&A at this point in time. We're focused on organic growth.

For the company, we're 97% regulated. Right now, getting up to a pretty big size, CAD26 billion rate base in the business. These are Canadian dollars. Ninety-two percent of the business is in T&D, so we have very little generation in our business. We have a small hydro in B.C. We also have some thermal generation embedded in our Arizona utility, but overall most of our assets are in that T&D space. Currently, about 60% of the business is in the U.S. We serve about 3.3 million customers across North America.

This is a footprint of our utilities. In Fortis, what you get is a unique business model. We're based in St. John's, Newfoundland. That's the little island off to the right of Canada there. We are the most easterly point in North America, close as you can get to Europe in North America. We have a small head office, 57 people in St. John's. I think that's gotten a little large over the last few years. But with SOX and NYSE listing and all of that, that's what's required.

We do run very decentralized businesses. Each of our utilities has its own management team. In the case of the larger businesses, they have their own board of directors made up of a majority of independent directors drawn from the service territories that utilities serve. And in our view, as long as regulation is state-based and provincially-based, that's the right model to own multiple utilities in North America. We do not get challenged by our regulators for that model, and it really works, and I think enhances transparency, customer service, and all of those things.

Sustainability. I know this is an area most utilities are starting to talk more about. And we have a great story at Fortis starting with the fact that 92% of our assets are in the T&D space. We have very little generation. And frankly, this high-quality ITC business that we bought a couple years back now has really enhanced the overall company's footprint and reduced -- by bringing in that business, we reduced our carbon intensity by about 63%.

I always try to explain to shareholders that we're primary a deliverer of energy. We're not a company that is a big producer of energy. You'll notice we delivered 19 times more energy last year than we actually produced. So we get paid to move gas and electrons down our lines, basically. We really don't, in most cases, we don't determine where they come from.

In terms of ESG and governance and social commitment, we really are a leader in Canada, especially in terms of diversity on our board. We currently have five females on our board of directors, 42% of the board, I hope that we can get to 50% over time. And we've made great progress as well in our executive ranks that 31% of our executive in Fortis are currently female.

We obviously are also giving a lot back to our communities, and it's a big part of being a successful utility business is to be involved in your communities. Whether it's in Novi, Michigan or Tucson, Arizona, Vancouver, Newfoundland, St John's, we are big players in a lot of the initiatives that are occurring in our communities. And it starts with our employees volunteering a lot of their time and also providing dollars to many institutions.

So let's just talk a little bit about the Fortis timeline. And we started in business in 1885 in St. John's. We put the lights on there. We went basically over 100 years without really growing outside of Newfoundland a whole lot. And then back in, I would say, the late 90s, we started to diversify the company away from Newfoundland. But I would say our first large purchase was in 2003, we bought the Aquila Electric Utilities in Western Canada. You guys might remember Aquila. They were somewhat imploding. We benefited from that. We purchased two great businesses in Western Canada. I would say that was the start of Fortis becoming a very successful business.

We followed that up with our gas business that we bought from Kinder Morgan. It seems like the Americans were exiting Canada. But Kinder sold their gas distribution business to us in British Columbia. That's a fabulous business. And then we really had marched across Canada and look backed towards Newfoundland and said there wasn't really a lot of other opportunities in the country.

And we started looking south, frankly, at businesses in the U.S. And clearly our first transaction was buying Central Hudson Gas & Electric in New York State. Chris, the CFO, is here with us today. And we followed that with UNS Energy in Arizona. And Frank Marino, CFO there, is also with us today. That was a great purchase for the company.

And then recently in 2016, we announced the transaction, ITC, and we closed in the same year. And that's been a great addition to our group. So, in my view, that essentially completed a push into the U.S., a very successful move on the company's part, placed us in the top 15 utilities in North America and when you rank us by enterprise value. And at the time we bought ITC, we said we're going to focus on organic growth in the business. And that's what we've been doing. It's been almost three years now since we announced the ITC transaction. We've had three successive capital budget that we have announced and each year. Those have increased. And we'll see in a minute the growth rate that the company is currently running at.

So if you look back, though, you think about a company that's been acquisitive like Fortis is, some of the times, you get the commentary involves like, oh, you have to buy companies to grow and you haven't really been growing your EPS. And frankly, that's not been the case with us. We've had great rate-based growth over the period we've had great EPS growth and 8% CAGR over these years. At a time when we probably achieved one of the most strategic moves in the industry to push into America and to buy three great franchises at the same time growing our EPS by, on average, 8% year over that period, so pretty successful initiative for Fortis.

In terms of TSR for shareholders, if you look at almost any period, 5, 10, 20 years, we've been delivering strong returns to our shareholders. And when I look at the 20-year annual return, 12% on average. That is a staggering number. Not that I caused all that, but I joined the company 18 years ago so -- and I left a newsprint industry, my former boss, the former CEO of Fortis, said I'm one of the luckiest guys alive. I went from a public company that went bankrupt in the newsprint industry to joining a utility that's had 12% return on average per year over the last 20 years. So everyone needs one of those in their careers, that's for sure.

So where are we now? After all of that, where are we now? We just, in mid-October, rolled out a new capital plan for the next five years of $17.3 billion, a big number. That's going to allow our rate base to grow by 6% to 7% over the next five years, and it's going to really support, without question in my mind, our dividend guidance of 6% per year on average for the next five years. And we can give that guidance and confidence without expecting any big changes in our payout ratio, and we are in the sort of mid to high 60s here right now in payout ratio. So I'm really feeling confident about the company's ability to execute on that dividend guidance without changing our payout ratio a whole lot and really grow the business nicely over the next five years.

In terms of the increase from last year, last year's five-year plan, we're at $14.5 billion. We're now moving it up to $17.3 billion. And where did that come from? Where did that sort of difference come from? On the right side of this chart, you will see that $600 million comes from a very exciting transmission project that we're working on in Northern Ontario. We are actually connecting up, I think it's, 17 First Nations communities to the power grid for the first time. These are remote communities in Northern Ontario. Really large project. We are actually in partnership with those communities. They own 51% of the project. But with our expertise, obviously, we are going to build and operate the project on their behalf, and the project is subject to one final approval, which is the Ontario Energy Board. But we're very confident we'll get through that process. The federal government has committed $1.6 billion to this project. And there's really hard savings by getting these communities off diesel generation. We think a lot of Canadians and a lot of Americans do not understand that there's still communities in North America that are not connected to the electric grid, and this project enables another 17 of those to be connected for the first time. So that's a great project.

ITC, we bought ITC back in 2016, this company was being punished by the markets for the perception that their ROEs were going down and that their growth rate was slowing. And they were actually trading below the average utility multiple at the time even though their ROEs were still massively better than the sector and their growth rate was actually better than the sector. But this perception of this company that had been really flying high and the shine was off, they were punished.

We managed to be successful in the process to buy that company. We said at the time we felt that ROEs were stabilizing and that ITC's growth rate would be better than what the market has expected. I can tell you here today that that's what's happening. In my view, ROEs are stabilizing around that 11% level for transmission. And ITC's growth right now, we're running at about 7% CAGR for the next five years. That's pretty damn good for a transmission company. And I think there's a little more upside to that number as well.

Arizona, our next second last purchase. What a dynamic place southern Arizona is. Tucson is a fabulous franchise. It's growing nicely now, maybe not quite as hot as Phoenix, but still very strong. And we're adding customers in that jurisdiction, lots of room to do more renewables and more transmission. So that company is growing very nicely as well.

And then FortisBC, a lot of folks don't understand this great gas distribution franchise that we have in British Columbia. It serves a million customers in British Columbia. It's one of larger gas franchises in North America. It's a high quality company, very innovative, doing things like renewable natural gas, gas for transportation, starting look at hydrogen, really exciting things happening in that jurisdiction. And now, recently with some issues around the infrastructure, the transmission pipe that Enbridge owns had a rupture, and I think it has brought a focus back to resiliency and all of that, and I think there's going to be some opportunities for our company to invest further in our pipeline networks there.

We actually own about 49,000 kilometers. It's about 35,000 miles of pipe in British Columbia, so it's a pretty big footprint. And I think we're going to have lots of opportunities to grow. And some of this increase in CapEx is related to integrity management of that pipeline system, new inspection tools for the transmission, high pressure and lower pressure pipe that we'll be implementing over the five-year period.

So the CapEx, one of the things that a typical utility has is a declining CapEx curve. Those outer years typically are not as clear to management teams, so you'll typically find that CapEx will go down. We had that last year. To a certain extent, we filled in some of those outer years. I think there's still a little work we can do there. But on average now, we're spending about $3.5 billion a year on our capital program.

When you think about CapEx as well, you're got to sort of understand, well, is it all regulated? Are you putting it in the non-reg businesses? In our case, it's 99% going to our regulated operations, and most of it is in small-sized projects. And we cut off of small projects that anything below $150 million. So in our case, we have about 10 projects that are more than 150 that represent 23% of our five-year capital plan.

We point that out because we believe our plan is a highly executable plan, low-risk that it will not occur versus, I would say, some of the pipeline companies who have these multiyear multibillion dollar projects that are subject to long permitting processes. You're not getting that with Fortis. You're really getting a highly executable low-risk capital plan. And then the mix of investment, obviously, the majority of our investment is going into our U.S. utilities at this point.

So what does this mean in terms of the rate base growth? You can see the next three years, we see a CAGR of 7.1% on a rate base. Over the five-year period, it's 6.3%. I do think we have a little bit of work to do to make sure we can run at that 7% continuously across the board. I'm optimistic that we can make that happen. But what's neat about this is that growth in $26 billion to $35 billion of rate base. That's $9 billion of rate base growth with no premium attached to it over the next five years. That's more than the rate base of ITC when we bought it. And we pay it almost two times rate base for ITC. And we're going to put $9 billion into the ground over the next five years with no premiums. So that's the quality of the business that you're getting with Fortis.

So these are some of the growth rates for our business. Really excited about New York growing at the fastest; our first U.S. utility up in the Hudson Valley. We have a three-year settlement there, and that's growing at 8% a year on average over the next three years. Follow up by ITC at 7% and then UNS at 6.3. Our largest Canadian utility, FortisBC, is growing at 6, and then the rest of the group is growing at 5. And I would say that's a bit of a workout situation. We really got to get that growth rate up in those businesses. It does take time. They're not unlike other businesses. I think we need to get a little more investment in those utilities to improve their grids, serve customers a little better, and we're going to be working on that.

You think about the change year-over-year, we went from a 4.5% CAGR to 6.3. That's a pretty big change. We've been working on this for about 18 months or so. But we're really pleased that we've made that much progress in our business over that period of time.

Dividends, in Fortis, we have -- our focus is dividends, frankly. And some of our American shareholders will focus on EPS growth. Fortis focuses on dividend growth. Seventy percent of our shares are still held by Canadian shareholders. They really like the dividend growth story. We've been growing our dividend now for 45 consecutive years. If you bought a stock back 45 years ago, you'd have more money in your pocket every year for the last 45 years. And now we've announced this new five-year growth target as well to add another five years to that. So for five years now, we'll be at the 50-year growth rate anniversary for dividends. And pretty proud of that. What that translates to a dividend of $2.27 a share five years from now. We wanted to point that out. So its management's focus is to make sure that we can deliver on the 6% growth rate.

I will tell you if we do better, we're not increasing our dividend. It's just going to go in the bank to make sure we can keep growing at 6%. Six percent is the number. We're not going to make it 8%. It's 6%. I'm very happy that we never went above 6% that we stayed at 6%, and that's what it's going to be on a go-forward basis.

So with all of that, we have a lot of exciting things that we're working on across the group on top of what's in our base plan. These are things that are not quite baked enough at this point to be putting in our plan, but some of these things will happen over the next number of years whether it's our transmission project in Ontario to connect the Ontario grid to the PJM grid, known as the Erie Connector project. That's about $1 billion project. We have it fully permitted on both sides of the border sort of ready to go. We're working on getting a party that would contract for the line. We're not interested in doing a merchant line. So that's an example.

In B.C., we have further opportunities on gas infrastructure whether it is creating some opportunity to create infrastructure-related to the bunkering of tanker vessels, replacing marine diesel with natural gas, also small scale LNG export possibilities tolling arrangements. We also have some storage opportunities in Arizona that we're working on as well. Some of these things will happen. They won't all happen, but they will be added to the overall growth rate of the company.

Current regulatory framework, just to spend a minute on this, it's a topic that we need to talk about more. Our Canadian business has an inferior regulatory compact. I would say today, we have equity thickness in Canada in many places that's below 40% in our businesses. So if you're in Alberta, for example, the equity is 37% in that business. In our gas business in B.C., it's 38.5%, so there's a full, at least a full 10 points below the typical U.S. state-regulated utility.

ROEs are about 100 basis points below. The reason is that Canadian regulation is deemed to be better than U.S. regulation. There's lower risk. There's really a very few disallowances. There's lots of regulatory mechanisms to take risk out of the business, lots of pass-throughs, all of that forward test years, all very positive stuff. But I would say the U.S., in the last 10 to 15 years, has also improved markedly over that period of time and has a lot of these similar arrangements, but yet their equity thickness is still around 50%. So it's our goal over time to work with our Canadian regulators to improve that situation in Canada.

And just a little fact, if our rate base that we had in Canada was actually in the U.S., we would be making about $150 million more a year. Obviously, we can't move into the U.S. We need to work on the Canadian regulatory compact, and we'll continue to do that. This is a bit of a longer-term project for the company. But we need to be able to convince our regulators of why this is important for our customers, long-term health of our utilities, and we'll continue to do that.

In terms of the big things we have on the go, clearly, the MISO complaints at FERC related to ITC's business, getting those resolved is important. Recently, the New England complaints were FERC provided some guidance about how they were going to be dealt with. This Thursday, the MISO complaints are on the FERC agenda as well. We can't predict what's going to be said there. But we're hoping obviously that similar processes will be applied to those complaints as were indicated for the New England complaints, which really, I think, were directionally positive for ROEs in terms of broadening the number of inputs that were going to be used to set ROEs, creating a broader range of reasonableness, and reducing the pancaking effect that's been in place for a number of years at FERC. So we're hopeful that that's where we're headed, but still some work to do and some filings to be made at FERC over the next number of months to confirm that. But we're really feeling better about the situation at this point.

Just recently FERC did say that ITC, in their view, was not as independent under Fortis as it was when it was a public company. So they reduced our 50 basis point adder to 25 basis points. That was a little disappointing. We're looking at the order and deciding what we should do. But ultimately, they did say that ITC still had some degree of independence and awarded a 25 basis point adder to it. That wasn't really significant to Fortis overall. Every 10 basis points of ROE at ITC is about $0.01 a share annually for Fortis.

Arizona has been the next area we are looking at planning to file a rate case at Tucson Electric Power in mid-2019. The last test year that we have there is 2015. We had a really reasonable outcome back then when we filed that case. It's in historical test year so we're actually refreshing our rates again using this 2018 test year now.

So new rates would come into effect mid 2020 in Arizona. And we've spent about $1.5 billion of capital since the last case. I'm not quite sure what the rate base increase is, but it's been a significant amount of money that we put into that business over that period of time. Frank Marino, our CFO, is there. He's in the audience as well. So we're really looking forward to refreshing our rates in Arizona. And I think that will provide a nice lift for our earnings second half of 2020 going into 2021.

And then finally, our B.C. business does have a renewal application for its performance base rates that they'll be filing next year to continue with the PBR approach that is going on in British Columbia. We don't see a lot of risk around that, but that's another filing that will happen.

In terms of funding, the big capital plan, how do we fund it? What's interesting, most of it is funded by cash from operations from our regulated businesses and debt down at those regulated operations. In fact, our holding company debt is not going to change, I think, by just 1% over the five-year period. So what that means is because we're growing these regulated businesses so quickly, the percent of a holding company debt, the total debt is dropping like a stone in the company. So that's really positive message to our rating agencies.

We did announce that we were going to do some asset sales when we announced our CapEx plan. This is some tweaking of some of the businesses that we picked up over the last decade or so. There's some valuation multiples that are being paid for some assets that you cannot ignore frankly that we were looking at. So we've been really focused on our non-regulated businesses. We do have this large hydro plant, for example, in British Columbia that could attract a very positive valuation as one example.

This is a slide on holding company debt to total debt. You see it dropping from 38% to 33% based on that heavy investment in our regulated operations. I will say that the rating agencies rate Fortis as strong and excellent business risk profile. So in itself, that puts us in a lower matrix in terms of our financial metric, which is positive.

Our sort of concern is more around where we are with Moody's. We're at BAA3. I would like to see that improve by at least a notch. Pretax reform, we were close, in my view. We didn't get put on watch when tax reform happened even though it did affect our cash flows. So we have to continue to work on that to improve the Moody's rating. We are rated A low corporate rating by S&P and BBB+ on unsecured debt. So the real focus is trying to get our FFO-to-debt numbers moving up to improve that Moody's rating over time.

So to wrap up and then we can take some questions, and my team is with me as well. I'll introduce them in a second. With Fortis, what you really get is a well-run group of utilities with these local management teams that frankly are doing a great job for their customers, the regulators and stakeholders. The company is very highly regulated concentration; 97% of the business is in the regulated spaces. And that's likely to go higher here.

We're very diversified. You get the benefit. You think about what's happening in California. Diversification matters for the utility business, and sometimes it gets discounted but we really know no one regulatory jurisdiction can really have a material impact on Fortis. We are probably the most highly diversified company in North America.

And now we have a really strong growth profile. It's not sort of top decile, but when you think about T&D businesses growing, rate base at 7% on a continuous consistent basis, that's pretty damn good. And if so we can keep that going. I think that's a great place to be. And that supports our dividend guidance. And frankly, we continue to work on these other opportunities as well that will help us from time to time accelerate that growth profile.

So with that, we're going to take some questions. And I think you need to take the mike if you're going to ask a question.

I should introduce my team: Jocelyn Perry, our new CFO. She's been with us six months. No relation to me. She's spent a lot of time with us at Fortis. She just ran as CEO of our Newfoundland Power Company, which was the first company that Fortis had. We actually grew out of that company. Stephanie Amaimo is our V.P. of Investor Relations. She was an ITC employee, now she works for Fortis. She's still based in Michigan. Jim Laurito used to run Central Hudson Gas and Electric. He's now my Executive Vice President of Business Development. So welcome, folks.

QUESTIONS AND ANSWERS

Unidentified Participant

I was wondering if you could comment on the storm recovery costs in the Turks and maybe some of your other Caribbean businesses.

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

So we're very proud of what we did in Turks and Caicos. Irma went through Category 5, devastated the island. I was there twice during the storm recovery. Places like Grand Turk, they were wiped out. So we actually sent about 250 folks from across North America. We sent equipment from as far away as Tucson to put the power back on. And we put it back on in 60 days.

So Turks and Caicos, if you've ever been there, it's a beautiful place. They did not miss the tourist season. Not many of the islands that were affected by those two hurricanes could say that, so we're really, really proud. We spent about $30 million to put the power back on. We're still in the process of recovering that. We actually filed the rate case it's being dealt with through our licensing arrangement in Turks and Caicos. We fully expect to recover all that money, but we are going through a process; probably I would say a little slower than what we would have hoped for but we'll get the money back.

Any other questions? Got to be a few questions.

Unidentified Participant

I am very excited about the work you're doing with the Ontario Energy Board in connecting the First Nations. That's a sizable project. I think it's about $1.6 billion. Curious whether Internet connectivity or fiber connectivity is something that you think about when you're working with Ontario Energy Board because if they don't have access to electricity, I'm sure they would value access to the Internet and you got a great opportunity to do that. We'd love to hear your thoughts.

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

That's a great question. Actually when we announced the project up in Northern Ontario, some questions arose because I think some of the fiber in some of these communities is just laying on the ground. It's not part of our application, though, because we're focused on electricity. But clearly, the fact that we're putting 1,800 kilometers of transmission into these regions will enable the phone, Internet companies to piggyback on top of what we're doing. And I know the federal government in Canada is really big on making sure they can provide help in that area, and that came up during our launch of the project. So I would expect that you're going to see some of that occur for these communities that give them more capacity to -- than they have today.

Any other questions? Well, I must have answered everyone's questions. Okay, well, thanks, folks. Enjoy the rest of your day.