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CORPORATE PARTICIPANTS

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Richard Wallace Sunderland *JPMorgan Chase & Co, Research Division - Associate*

PRESENTATION

Richard Wallace Sunderland - *JPMorgan Chase & Co, Research Division - Associate*

Good morning, and thank you for joining today's Fortis session with Dave Hutchens, President and CEO. David has led Fortis since 2021, having previously served as the company's COO and CEO of UNS Energy Corporation in Arizona. Dave, welcome. I'll turn it over to you for your opening remarks before we start Q&A.

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Thanks, Rich. Really appreciate being here in New York, live in person. It's quite a treat to be back to what seems like a semblance of normal investor meetings, finally getting to sit across the table instead of across the teams or Zoom meeting. So there's a lot of value in these and really this conference is running like a clock, amazing. So I just want to start out, of course, first with standard forward-looking information disclosures. But I do want to mention, since we are in the U.S., we're a Canadian company. Most of what you'll see in this presentation are all the numbers unless I say differently are Canadian dollars just in case you want to do that FX conversion in your head because I know you're all numbers folks.

So in case you're a little bit unfamiliar with our story, I thought I'd just give you a couple of minute background. Fortis is a company that grew through M&A across North America started with just one small very tiny utility Newfoundland Power back in the day, created a holding company, Fortis, and then did -- through acquisitions through M&A, purchased utilities across North America starting in Canada, went down to the Caribbean after that and then into the United States. The last 3 transactions were acquisitions of U.S. utilities, Central Hudson, UNS Energy, where as Rich mentioned, I came from. And then the biggest and most recent, which is ITC now the biggest and most recent isn't that recent, it was closed in 2016.

So after 2016, and that acquisition of ITC, we pivoted to an organic growth story because it was the right time to do that. We were big enough. We were obviously diversified enough. If you look at this map, and we had the right assets to focus on organic growth, ITC, a big transmission company, the renewable energy story in Arizona, we just had -- we had the right moment in time to shift to that organic growth philosophy.

So a couple of numbers I want to throw at you just a little bit of background. So in this footprint, 99% of our assets are regulated. And also another important number is 93%, 93% of our assets, our energy delivery transmission and distribution assets. And that's important because, obviously, with the focus on ESG and sustainability, in particular, you want to know what that footprint looks like. And we've got a very light footprint from an environmental perspective.

So that 7% that's generation, 2% of that is renewable energy or hydro. So put that over here and say that's in the good bucket. The other 5% is fossil generation, and I'm going to cover that on the next slide on what we're doing about that. So even though it's just 5% of our assets, we're really focused on reducing that. So in 2020, we put out a goal to reduce our greenhouse gas emissions 75% using a 2019 base year. So 75% reduction by 2035. And this is -- while it sounds like a huge stretch like, can you really achieve this? We know exactly how to do this. 90% of the emissions are from our utility in Arizona, Tucson Electric Power. We actually have a plan, an integrated resource plan that we filed with our commission that will get us to this overall greenhouse gas reduction goal from a Fortis wide perspective. So not rocket science. This is how we do it, shut down coal plants, put in wind, solar and storage.

So nothing that we're waiting on for some new technology. This is something that we know we can do. And just as a little bit of proof in the first 2 years since setting this goal, we've reduced those greenhouse gas emissions by 20%. So we know how to do this. We actually have another coal plant that's shutting down a week from today. We have a lot of renewables that we put in last year, 450 megawatts on TEP system so we can see this path pretty darn clearly.

Now because we could see this path so clearly, it was important for us to continue that conversation on how we are going to build on that commitment to get to net-zero. So we set a net-zero goal. And that net-zero goal is net-zero by 2050. That first 75%, which is -- I'd love saying this, it doesn't require any offsets. The next 25%, the last 25%, obviously, we don't know exactly how we're going to get there. Most of those -- that last 25% of emissions is natural gas generation in Arizona that we need to support our load. So we're going to see where technology takes us -- got plenty of time. Is it going to be hydrogen? Is it going to be carbon capture and storage, whatever it's going to be, we'll figure that over time and use offsets, if necessary.

Importantly, since all of this -- well, most of our greenhouse gas reductions are at Tucson Electric Power, it's important that we get all the things set up at TEP to continue down this transition. And one of the things that we're doing -- we're filing a rate case and the rate case is what it is. It's got normal things like putting additional assets into rate base, ROE increases that we're looking for there, some rate design, the standard rate case stuff. But we're doing 2 things very importantly that are going to support our clean energy transition. The first is a resource transition mechanism, which will allow us to recover assets between rate cases because in Arizona, it's a historical test year.

So we want the ability to recover wind, solar, battery storage investments between rate cases, reduces regulatory lag or reduces the number of rate cases that we would have to file. So that's a big deal. So one of the things that we're doing is putting -- we're converting an existing tracker mechanism into that and we're reducing the overall tracker mechanisms that we have by 2 by pushing a couple of them into base rates. The other thing that we're doing is accelerating the depreciation on the 2 remaining coal plants that were going to shut down in 2027 and 2032. So we're bringing those asset lives forward. So that's important to get the stage set for the rest of the transition. But this is my new favorite slide because it shows what we're doing from a rate case perspective, but that middle box tells you everything you need to know about the clean energy transition and how it's going to work down in Arizona because it shows what we're doing by putting in these assets, big 250-megawatt Oso Grande facility, some solar and even that Springerville accelerated depreciation.

So those customer impacts that we see from that, that are going into this rate case are more than over -- more than covered by the San Juan retirement that happens in a week. So that's the story that you want to be able to tell is showing how the -- how our customers are in this case, a net positive benefit from this clean energy transition. And that's why I wanted to carve it up and show it like this because this is how this will work as we shut down the rest of these coal plants.

Real quick. It's all about rate base growth. Obviously, if you're talking about organic growth and you have 99% of your assets are regulated utility rate base growth. It's how you do it. We have a $20 billion 5-year capital plan. We're very focused on executing that this year through the first quarter. We knocked out $1 billion of the $4 billion plan. So we're on track this year. This is a great story because there's no big things in here. This is all low-risk, highly executable capital that we are putting into the ground in regulated utilities.

And besides that, we have, as I'll talk about in a minute, it's a great opportunity for some additional upside to this plan as well. But over the course of this 5-year plan, our rate base grows by $10 billion. That's, in essence, the size of an ITC acquisition. And this is the best way to grow utility is dollar-for-dollar rate base investment. That's the best way that we can grow for our shareholders. And we have a long CapEx runway. I'm not going to cover all the bullets on this slide, but suffice it to say, they're in 3 buckets. They're in the clean energy transition that's building transmission to interconnect renewables. It's actually building renewables. Transmission interconnect renewables is done in ITC. Lots of interconnections, there are lots of growth opportunities. MISO long-range transmission plan that just got announced. We see USD 1 billion to USD 1.5 billion in investment opportunities just out of that tranche 1. We have a lot more investments. We estimate $2.5 billion to $4.5 billion of additional investments that need to be made in Arizona for that clean energy transition. So this is all about mitigating as best we can to do our part in mitigating climate change.

The other bucket is well, what do you do in case everybody else isn't doing pulling in the same direction, which is adapting to climate change. So having a lot of conversations about investments, resiliency that we need to make to ensure that our systems can withstand the severe weather impacts that we're seeing on a going-forward basis. Obviously, a lot of investment opportunity in technology, whether it's around improving service, efficiency or cybersecurity, obviously, a big conversation these days as well. Growth opportunities and electrification that just scratching the surface, right? Everybody is thinking about electrification in so many different sectors. Transportation is a key one that most people are talking about now because finally, there's just a ton of new EVs out there. And so we're going to see that grow over time. And then, of course, business development opportunities that we see in our footprint, Lake Erie Connector at ITCs, a prime example of that, Wataynikaneyap Transmission Project up in Ontario is another prime example of that, LNG opportunities out in FortisBC. We're looking and shaking the bushes for all kinds of those opportunities as we go forward.

So our investment thesis is simple. I mean we -- we do one thing and we do it very well. That's run regulated utilities. So that's our focus. And we have a great risk return story. When you look at the growth that we have, a 6% rate base CAGR that supports our 6% annual dividend growth guidance that we have out there. When you look at those additional opportunities like Erie Connector, MISO long-range transmission plan, the TEP investments or UNS and Arizona investments that I mentioned and that whole long runway of CapEx that we see is supporting that strong growth.

And look at risk, 99% regulated, diversified and a great ESG story, a great ESG story that's getting even better. So you put all those together, and I think that we've got the right focus from a company perspective for what we see today and what we see out in the future. So with that, I'll stand by for questions. Rich?

QUESTIONS AND ANSWERS

Richard Wallace Sunderland - *JPMorgan Chase & Co, Research Division - Associate*

Thanks, Dave. If anyone in the audience has a question, please raise your hand. We'll bring a microphone over to you and fire away. Thank you.

Unidentified Analyst

I'm sorry (inaudible).

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

[Do you want me to stay] here, Rich?

Unidentified Analyst

Not that familiar with your story, could you break down your assets kind of a U.S. rate base versus Canadian rate base? And then how big are ITC assets today is part of it. And I know ITC historically kind of had higher rates of ROEs allowed in the rate base. I don't know if that's for these new projects you're talking about, if that's also something that you're eligible for.

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Well, there's like 7 questions in there. Okay. So rate base. So ITC is 37% of our rate base. UNS is 20%, FortisBCs about 18%. You get down to FortisAlberta about 9%, Central Hudson 8% and then the remaining 8% is the smaller Atlantic Canada and Caribbean assets. If you add it all up, I think about 65% -- this is not on an asset basis, but on a revenue basis, about 65% of our revenue comes from outside Canada. On a rate base, I think it's more like 55% of rate bases outside Canada.

What was the other question you had there? ROE. ROE, yes, there's obviously a lot of arm wrestling over the past, I guess, multiple years with base ROE in MISO, in particular, that was impacting ITC. That seems to have all got settled down. It's whatever that order was [569A], that kind of set that new in essence, formula or way to look at setting the ROE, that seems to be settled science now as it were. Now comes the other side, which is base interest rates, right?

So base interest rates from now, that conversation is not about -- we've seen the bottom, right? We've seen where interest rates have and ROEs have hit bottom. Now as we go forward, we expect that to follow interest rate curves up as we move forward. So there's that. There's obviously a lot of conversation around the original NOPR on transmission incentives that then got a supplemental NOPR. That seems to be a bit of a back burner issue, which I think is fine because when you look at what FERC is currently focusing on, they're focusing on all the right stuff that we would ask them to focus on, which is can you get planning cost allocation and interconnection stuff sorted out.

So they now -- after they put out that advanced NOPR, they have 2 NOPRs that spun out of that, 1 that's on planning and cost allocation and then this new one, which was just last week on, in essence, interconnection or queue management. These are all going in the right direction. This is always to allow us, ITC, UNS particularly -- UNS has transmission assets as well as does Central Hudson. It allows us to see a little bit more clearly how we can grow from a transmission perspective.

So FERC is being very constructive in looking at the ways to make it easier to permit. And look, it's the main thing, right? I mean you've got a lot of renewable assets out there in queue. So first, you got to get them through that interconnection queue so that they can get connected, but they're not where you need them, right? So now you have to figure out how to develop that transmission in order to get them from resource to load pocket. Did I hit all of them? Okay. Yes.

Unidentified Analyst

You had mentioned that your big picture story is coming in shutdown coal and replacing with wind, solar, storage. And you also touched on LNG opportunities in FortisBC, I think. Do you see it just there? How do you see LNG is paying a part potentially of your story as you get towards net-zero?

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Yes. LNG, the only place we really have that story is in British Columbia and a great story. Not only do we have our own LNG facilities, a couple of them out there operating, but we're looking at expanding them, and we're also building a pipeline to this Woodfibre LNG project that -- it's a pretty decent-sized pipeline that we have to build for that. We're not involved in the LNG facility as it were but that pipeline that we're building, we've got $350 million in our capital budget for that, and that's just a portion of that overall cost to build that pipeline. So there's, I think, a lot of growth opportunities in LNG. All of a sudden, LNG is the talk of the town again after the geopolitical events, Russia invading Ukraine has really changed the conversation around LNG.

Now we're on the kind of the wrong side of the continent for the conversation in Europe, but LNG is pretty much a world commodity. So as shipments start going one way, you're going to need in another direction. So that's what we're obviously in BC focused on markets in Asia, et cetera. We're actually the first ones to ship LNG in small ISO containers from Canada to China. FortisBC was, and that was, I think, almost 4 years ago. So there is that opportunity there. Obviously, the economics come and go. But right now, they're really strong for LNG projects.

Unidentified Analyst

Dave, you had mentioned Lake Erie Connector, and there's been a lot of momentum behind that project, particularly this year, could you talk a little bit about the history of the project, where it stands now and what you're looking for going forward?

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Yes, while the history goes back, I think, 2013, 2014, I'm looking at Linda Apsey, she came with me. She's the CEO of ITC in the audience there. So if you have one-on-ones with us, you can drill down into the gory details on some of the ITC projects that we have going. But Lake Erie Connector, I mean, we have really made phenomenal progress over the past couple of years. And we are now sitting at the point -- look, it's fully permitted at shovel-ready. We got CIB, Canada Infrastructure Bank financing for 40% of it. Right now, we've got our counterparty, which is the Independent System Operator of Ontario, got an ordering counsel from the Ontario government to go get a contract, transmission service agreement on this asset and bring it back to them by August 15, obviously, within bounds of the format that the project was proposed to the government. So right now, we are in that contractual arm wrestling match that you often get in to balance risk and return across this project.

So we're hopeful that OIC deadline of August 15, we're hopeful that we -- you can get a transmission service agreement executed with that and get things moving on it.

Unidentified Analyst

And if you execute the agreement, what's the process going forward? How long to construct the line?

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

So it's a 4-year process. And once we got approval, obviously, get the transmission service agreement settled, signed between the 2 parties approved by the Ontario government. Obviously, internal approvals go along with that. We would then start locking in the EPC contract so that we can get moving on that. That's obviously a big part of this whole conversation, too. So you get those pieces, again, fully permitted. You don't have to figure out what to do there, which is a great spot to be in. No conversations around cost allocation or any of that stuff. Once you sign that, it's done except getting those EPC contracts wrapped up. And that would be obviously the near-term goal, you get that done, and then you jump into construction, hopefully, early next year. Yes.

Unidentified Analyst

Just thinking about where the company came from, like you said, kind of M&A heavy back until a few years ago and kind of evolving now. You talked a little bit about the renewable change. But clearly, there's only 5% of CapEx that goes into it. I'm assuming to (inaudible) [Tucson] (added by company after the call) electric in a few years (inaudible) much wind there. But where is the story going from there then? Is this still kind of an M&A-light story or stuffing changes? Is it just that 6% dividend growth? How do we think post this a small transition (inaudible)?

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Yes. So I mean, we really have put M&A on the back burner, but it's still on the stove, right? I mean that's the conversation that we always have, where we've always got our ears open for opportunities and could be opportunistic, but that's not the main thing. The main thing is one of the greatest things that you can do is build renewables in rate base. It's got a great ESG story. It's got a great return story. It's got a great cost story, right? When you look at what you're shutting down, especially if you have coal plants that you're replacing. I never thought I'd say this, but especially coming from TEP when we were always a very heavy coal utility. When I started there, jeez, I guess, 27 years ago, some of the first annual reports that I read from that company was bragging about getting to almost 100% coal, obviously, a very different time. But that was around cost stability and low rates. And now we're talking about how do you get to 0 coal. We're going to be out of coal by 2032.

So being able to show where you can take those costs, the O&M, capital, fuel of a coal plant and replace it with basically capital in a tiny bit of O&M and no fuel, you've got a great story. So it's weird for me to stand up here and say, kind of wish we had more coal because that's a great story. If you had more coal in rates, you've got more headroom in order to build out those renewables going forward.

Richard Wallace Sunderland - *JPMorgan Chase & Co, Research Division - Associate*

Maybe sticking with the renewables' themes. Can you speak a little bit to your RNG efforts, where you're active on that front right now? And maybe how you see that going forward?

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Yes, main activity in RNG is in British Columbia. So we have a goal there that we set ourselves actually prior to any activity by the BCUC, the British Columbia Utility Commission or the government there. We set a 15% -- or a 30% greenhouse gas reduction for our end users by 2030. So we got ahead of that years ago and announced that goal. And that's -- it's kind of got a 3-pronged approach, energy efficiency -- energy efficiency is a big one, renewable natural gas or renewable gases, the gas folks, if you call it, renewable natural gas because it's technically not that. But so you have renewable gases and then you have LNG. And those are the things that we can also -- this is a conversation around Scope 3 emissions, which most utilities don't talk about because it's very hard to control that.

Now on a gas -- from a gas company perspective, you can. And the goal that we have in that company is to get 15% of our supply from renewable gases by 2030. That's a big -- that's 30 Bcf or PJs, if there's any Canadians in the room. So that's a lot of natural gas. But we've already started putting that in. We've got, I think, around 7 Bcf per year approved through the BCUC through the commission there and have -- we have line of sight to getting most of the rest of it. And we've done a study there that shows that there's plenty of renewable gases up in British Columbia. So we're going to continue to execute that.

Obviously, we're going to execute at the right pace to manage affordability for our customers because there's no doubt that it's expensive. It's $20 an MMBtu or GJ, which is -- I'd say -- I would have said really, really expensive compared to natural gas, but that's only like twice as much is natural gas these days, unfortunately. Now that's a short-lived phenomenon on having high natural gas prices.

But overall, we expect to see the cost of that and the cost of hydrogen to come down. And as that comes down, we can feather that into our system, reduce our footprint and make sure that we're fully utilizing the assets and infrastructure that we have. The natural gas infrastructure will be used. It's what you're going to put through it. You can't get that kind of stuff permitted anymore. And depending on where technology goes, where the breakthroughs are, whether it's in carbon capture, whether it's in hydrogen, you just don't want to cut off one of those pathways too early because this is a long trip. And I think, obviously, the geopolitical disturbances we've seen in the market, the conversation around getting the right path, I think that's healthy and helpful. That doesn't change the end goal, but it might change the next 4 or 5 years activities and the view on how we have to look at this in a more concerted effort. There is no cliff coming. There's no cliff where in 2030, magically, everything is carbon free. So we have to make sure that we're thinking about it a little more thoughtfully.

Richard Wallace Sunderland - *JPMorgan Chase & Co, Research Division - Associate*

Maybe sticking with those themes. You mentioned affordability. You also mentioned high commodity prices right now, recognizing your portfolio is very diverse, and this touches your OpCos in different ways. How do you see near-term pressures or lack of pressures in this environment on your customers? Are there any utilities particularly differentiated in their positioning under the Fortis umbrella?

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Yes, there's 2 pieces that are really kind of coming at us. One is inflation. And to be honest, we haven't seen a big impact yet. So key word is yet, right? So we're not seeing huge increases in commodity prices, absent fuel. I'll get to that in a minute. That's the other piece. But we're not seeing those big inflationary impacts in our customers' bills yet. Now as we go through rate processes, as we see inflation, interest rates, et cetera, go up, those will impact our customers' bills. We have different regulatory mechanisms depending on the jurisdiction that obviously dampens that down. And so the financial impact to us should be very, very small.

The areas where they would be more pronounced would be in Arizona, where we have historical test year. So we obviously have that rate case now. We're updating costs as best we can. And then on a going-forward basis, there might be a little bit of a drag on those costs. But as they come down, there's also -- so regulatory lag is usually used in a [pejorative] sense. It can help you. And it can help you when you have good load growth, good use per customer, like electric vehicles coming behind the meter and cranking up your use per customer. And it can help you when you see interest rates and inflation go back down. So it gives and it takes. So that's one thing. And we're watching it very closely. We're having those conversations across our subsidiaries to find ways of managing cost the best we can, looking for efficiencies using technology, just some brute force, good O&M management. You got to really be focused on that.

The bigger impact right now is those pass-throughs of commodity costs, meaning gas and electricity, particularly on our distribution companies like Central Hudson, FortisAlberta, they don't do anything, but pass through market prices. They're in the New York ISO or the Alberta ISO, they just take those costs and pass them through. But we unfortunately have the -- our name at the top of those bills. And even though we can't control that, we don't make a penny off of it, those costs go through and impact our customers' bills. That creates, obviously, issues for our customers that we have to work with our regulators to figure out how to smooth that out, which we have been doing. That's probably -- that's more pronounced from a TEP perspective, just in a timing perspective.

Now we have a purchase power and fuel adjustment clause where we capture all that. And it is muted by the fact that we're a vertically integrated utility in Arizona. So that means we still have coal, we hedge our gas, and we have renewables. So there isn't like big exposure that you would have on a percentage basis if you're just buying it on the market. So those things dampen that down. But still, we work with our customers and our regulators to figure out how to spread out that cost recovery. Obviously, being cognizant of cash flow impacts and things like that, but we know that we have to do the thing that's -- we've been in this business for over 100 years.

And we have to make sure that we're here for 100 more, and that means playing the long game. And sometimes playing the long game means spreading out some of these cost recoveries for the good of the order, making sure that literally, the good of the rate order is how it ends up being. We -- that's the thing that we should be focused on now is smoothing out that impact. Even though we had a large from TEP, we had a large purchase power and fuel adjustment clause bank balance, and we're supposed to collect it over 12 months, and we spread that out over 18 months, only a 3% bill impact. So those are the kind of things that we've got to do to manage it.

Richard Wallace Sunderland - *JPMorgan Chase & Co, Research Division - Associate*

Well, great. I'd like to thank the audience for joining us today and thank Dave for his time as well. Thank you.

David Gerard Hutchens - *Fortis Inc. - President, CEO & Director*

Thank you.
