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EDITED TRANSCRIPT

FTS.TO - Fortis Inc Investor Day (Toronto)

EVENT DATE/TIME: OCTOBER 15, 2018 / 12:30PM GMT

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Good morning, everyone. Welcome to the 2018 Fortis Investor Day. As a friendly reminder, please silence your phones before we get started. We have a brief video that we plan to show real quickly, that's actually developed by using some of our employees. So please enjoy it while you get settled. Thank you, everyone.

(presentation)

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

Good morning, everyone. That's the softer side of Fortis right there. Welcome to our 2018 Toronto Investor Day. We have some exciting material today to take you through. And I will tell you that just out of the gate, I am very proud of my team for how we've executed post our push into the United States and our acquisition of 3 U.S. utilities, with the last being in 2016, and our focus on organic growth since that period of time. And we're on our third iteration of our capital budget at this point, and we've increased it 3 years in a row. So we're getting to the numbers that we need to be at, at this point.

So let's get started. Forward-looking information. Obviously, there are things we're going talk about here today that are based on our forecast of the next 5 years. They may or may not come about. So today we're going to do a strategic overview of our business and capital plan. I'm going to take care of that. In the middle part of the morning, we are going to have 3 of our CEOs, Roger Dall'Antonia at FortisBC; David Hutchens in Arizona; and Linda Apsey in ITC Holdings, review their businesses and their growth prospects. Our CFO, Jocelyn Perry, will come and then look at our 5-year plan and outlook and how we're going to finance that capital. And I'll come back and conclude, and we'll take questions at the end. There'll be a break in the middle of the morning after David's presentation.

So right out of the gate, $17.3 billion of CapEx over the next 5 years. That's a big number, damn big number. And that's going to drive our rate base by 6% to 7%. Interestingly, in the next 3 years rate base is growing up by 7% a year. We've been running -- we've been growing rate base now consistently at around 7% a year. And that's supporting our dividend guidance of 6% annually through 2023, and that's now we have extended it 1 more year to 2023. We did announce an increase in our dividend this morning to $0.45 a quarter, that's a 5.9% increase.

Our strategy has not changed. We really are leveraging our operating model, footprint of our utilities, our operating expertise, reputation, financial strength to develop growth opportunities. That strategy is working. You can see that in our CapEx plans and in the other opportunities that we're pursuing. Clearly, we are committed to our 6% dividend guidance. You see our focus on organic growth and our other areas of focus in the bottom of this chart. There are some new thoughts in here. Clearly, issues around cybersecurity are very prevalent in our industry, we'll talk a little bit about that, as well on sustainability. These are big trends now, and Fortis is on top of those.

So let's just have a look at the time line of Fortis. So we've been in business an awful long time, since 1885, when we started in Newfoundland, we put the lights on in St. John's. Up until 2012, our focus was Canada. I would say for most of that 2000s, we expanded across Canada into the Caribbean. And then in 2013, we took a big step to move down to the United States. We had been working on opportunities there for some time, but we're successful with Central Hudson in 2013. We followed quickly with the purchase of UNS Energy in Arizona. And then in 2016, we closed the acquisition of our largest utility, ITC Holdings, which is the largest transmission company in the U.S. Midwest. Post that sort of push into the United States, we have been focused on organic growth in North America, and that continues to be our focus. I will say though, if you look at the last 5, 6 years in our industry, I think Fortis has accomplished one of the biggest strategic moves of any utility in North America, moving from a Canadian-centric business to a North American player, we're now in the top 15 utilities in North America. We're still based in St. John's, Newfoundland, with a small head office there. So it's a pretty amazing achievement.

It's always good to have strategy and execute well, but you have to perform as well from a shareholder perspective. And I think just on any -- just about any measure Fortis has performed, if you look at that time period, so 5 years, 10 years, 20 years, we've been delivering around 10-plus percent annualized returns over the last 20 years, in fact 12.2% for the last 20 years. That's a pretty damn good track record, one that we hope to continue.

So let's look at the business. We are focused on regulated assets in North America, regulated electric utilities, regulated gas utilities, so 97% of our business is focused in that area. That will continue to be the case. In fact, I think, that number creeps a little higher over our 5-year plan. Our CapEx, by the way, is almost dedicated solely to regulated businesses. Currently, we are sitting at 26 -- approximately $26 billion of rate base. I always jokingly say, that's like 26 Newfoundland powers, because Newfoundland has $1 billion of rate base in St. John's, Newfoundland. So we've expanded outside of Newfoundland equivalent of 26x what our original utility was.

Our focus is T&D businesses, transmission and distribution both on the electric side and on the gas side. We like being close to our customers. And we have very little generation in our asset mix. So we're basically a poles and wires and gas line business. That's what we have -- that's what we are. 10 businesses across North America now. Interesting, that push into United States actually made -- allowed us to have more assets in the U.S. than we currently have in Canada, where 60% of the earnings from the business is coming from our U.S. businesses. And we currently serve 3.3 million utility customers. I would say that number is actually much higher when you think about what ITC does in the Midwest. This doesn't include the customers that they touch with their transmission system in the U.S. Midwest. This is really our sort of state-regulated and provincially-regulated utilities that we're talking about there.

So we are very diversified company, probably the most diversified utility in North America, 10 businesses now creating 1 strong North American company. And when you think about Fortis, what you have to understand is we have a unique business model for our sector. It is our belief that if you're going to own utilities in multiple jurisdictions, those utilities have to be run locally, operated locally, governed locally, managed locally, and that's always been our belief. It's how we've implemented our strategy throughout North America. Each one of our businesses, especially our larger businesses, has its own management team, its own board of directors, typically made up of majority of independent directors drawn from the service territory that the utility serves. And it's worked really well. As long as regulation is provincially based and state based, we believe that this is the right model for our sector in North America, if you're going to own multiple utilities in terms of multiple jurisdictions. Our head office in St. John's has 57 people. I think it's a little large right now. When I started, it was like 10, I think back in 2000. So we have expanded that office a little bit as we listed on the New York Stock Exchange, and had to be SOX compliant and all the various things a large public company has to do.

Obviously, very proud of our people. This is a picture taken on Signal Hill, St. John's, Newfoundland, on the day of our listing on the New York Stock Exchange. This is probably the best picture, I believe, from that period. It's not me in the bucket truck with the President of the New York Stock Exchange in front of the exchange, it's really this picture that gets me every time, because these folks actually got our banners out and they marched through St. John's. This is about half of her head office here. And I don't know who was running the office when they left, but -- and they walked up Signal Hill and they took this picture on a foggy day in Newfoundland, and it just gets me every time. But we have some of the best people in this sector. You think about the business model, these large utilities, whether it'd be in British Columbia, Alberta, Arizona, they have their own teams. So our model really is an incubator of talent for the entire group. Our board focuses on about 30 of our top talent. The CEOs of each of our businesses, myself, my direct reports, vice presidents and corporate really track those individuals from a leadership development perspective. But each one of our large businesses especially has its own succession plans, its own leadership development plans and it really works well. We also share our best practices throughout the group, a lot of networks in the company, whether it'd be finance, operations, customer service, everyone is learning from each other. Our CEOs serve on other utilities board. So even though we are decentralized business, we get the advantages of being a large company. We do some group buying as well, especially on things like large conductor, large line trucks, transformers. We pull resources together on those things and make sure we sort of present ourselves to the market as one large company and get the benefit of those efficiencies for our customers. And that works really, really well.

So talk a little bit about safety and reliability. Clearly, safety is a priority in our business and it always will be. We perform well in this area. Our all injury frequency rate is trending down and is better than the CEA average in Canada and better than the average for the U.S.A. Bureau of Labor Statistics. We're obviously continuing to improve here. We have some businesses that are better than others in our group, and we're learning from each other, and we hope to continue to make improvements there. On a sort of reliability perspective, one of the measures is the SAIDI or duration, average outage duration, and we are actually performing a lot better than the average for North America. Now these are averages, and a lot goes into these numbers, you have different geographies with different weather systems and all that. But just as a measure, just trying to get a sense of where we stand at around 2 hours of outages a year, especially, with our large rural systems, these are pretty damn good numbers, and -- but are numbers that we need to continue to work on and improve over time.

So those who follow the industry know that there is a lot happening in our sector. And I would say 3 or 4 years ago, people were talking about the death spiral for utilities and all the disruptive threats that we're facing in our business. We get a little bit less of that that these days. I think utilities have embraced these risks throughout their businesses. In fact, in a lot of cases, these things that were considered disruptive threats are now, a lot of cases, seen as opportunities to invest a capital. And we're seeing that at Fortis, things like grid resiliency, modernizations, move to cleaner energy are all areas that we see our businesses being more engaged in and actually developing opportunities to grow our business from those areas. Things like electric vehicles, obviously, still early. I think the trend will continue. I think it's positive for the -- especially businesses that are in the poles and wires part of the grid where we are, I think that's a real positive. Cybersecurity is really gaining prominence at this point in time. Protecting the grid from attack is a real priority. And we are on the leading edge of a lot of the initiatives in that area, which I'll talk about in a minute. And ESG clearly continues to be an evolution. Our shareholders are concerned about it. Our customers are concerned about it. And we are responding to that very aggressively at this point.

So cybersecurity. It is a risk that we prioritize. We are focused on it. I've appointed a new EVP, Chief Information Officer, Phonse Delaney, he is here with us today. He reports directly to me. There's a lot of companies that still don't have their CIO reporting into their CEO. It's important. And I would say this area is one area that we benefited when we bought the ITC franchise. ITC is really -- runs the high voltage grid in the U.S. Midwest, especially in states like Michigan. It's very important that the grid is protected. And they've been on the front end of all the things happening in this area. If you ever get a chance to visit ITC's Novi headquarters and see their control center under 24-hour cyber center, that's really monitoring the grid constantly. It's pretty damn impressive. ITC were using an assessment tool called the C2M2 to assess their sort of cybersecurity risk. And we actually took that tool, which was sanctioned by the U.S. government, and we really went through all of our businesses and identified gaps in our businesses and reranked where they were, and we're now closing those gaps. So it was a real opportunity to take something from a company that you are acquiring and then implement it across your group.

Clearly, our business model itself is a protection for Fortis. None of our utilities share systems. They have all their own IT systems. We don't have a big corporate mainframe computer sitting in St. John's. Everyone is on its own, and that in itself protects the company and it's something the structure we're very much wedded too. I think cyber management also now -- we're really looking at setting objectives for things like phishing attacks, those kind of things. Changing the behavior of our employees, a lot of businesses are doing that, and we're building those into our sort of

short-term incentive targets to really bring focus to this area. I do believe that the cyber area will generate investment opportunities. We're seeing some of them already. If you go down to the ITC, you see the investment technology they have made, but also on physical security. ITC has substations with 16-foot fences, uncuttable wire, outward-facing radar in their substations. So utilities used to be concerned when people got into their substations, now we're concerned about people that are 1,000 feet away from our substations. So these are important sort of measures that we're taking that will start to come to our other businesses across North America. The entire issue around legacy IT systems being able to patch quickly, we -- clearly, if you take a week to patch something, that's a real problem. And if you have companies that are out there that have systems that take you that long, you need to be fixing those systems. I think the best out there are patching within an hour, basically once there's a known problem on the system. So we are focusing those areas and that will continue to develop some capital opportunities to grow the business and protect the grid going forward.

Another area that we've made tremendous progress on is sustainability. Nora Duke, who heads up this for Fortis, is here with us today. We just, on Friday, released our first ever sustainability report, which is a very comprehensive document. Previously, we had issued 3 environmental reports that were mostly focused on the environment, but this sustainability covers the entire sort of gamut of ESG. And I want to point out that a lot of people still don't get Fortis in terms of how we're sort of positioned in this area. We're probably one of the most well positioned companies from an ESG sustainability perspective largely related to the fact that we deliver energy. We don't really produce energy. So we delivered 19x more energy to our customers than we generated in '17. It gives you a sense of the business that we're in. We're not the producers of the energy, and that's where most of the emissions are on the production side. We actually, in a lot of cases, don't even own the energy that we move through our lines or pipes. 92% of our assets are in that electricity poles, wires and natural gas lines. And the benefits that we get from ITC continue to accrue. When we bought ITC back in '16, what we did, obviously, just bought this massive wires business that delivers an amazing amount of energy in the U.S. Midwest. And when you put that into the mix of how you calculate your carbon intensity, that improved Fortis' carbon intensity in 2017 over 2015 by 63%. So buying that high-quality wires utility that's focused on transmitting energy improved our footprint across our group of companies massively as one of the sort of residual benefits of along with many others that we got through the purchase of ITC.

In other areas Fortis is leading the way. In terms of women on our Board, we're ahead of our target of 1/3. We're, I would say, one of the leaders in Canada in focusing on gender diversity there. We have 5 board members now, up from 1 in '13. And also in women NEOs, I think, we have 2 of 28 women NEOs in the TSX 60 companies, and I just think about that. I just look at this room guys, we got a big problem in this area. The financial services industry is the worst about -- with it. And I'm pointing that out more and more. We got to fix that problem. It's important to Fortis. It's important to our business overall. I am so proud of the women we have working for our company. They are top-notch executives. And you'll see that today when you see our CFO, our new CFO, Jocelyn Perry, come up. But this is an area we're focused on. We will continue to make progress on it and very proud of what we've achieved so far. Communities, if you look at successful utility, the first thing you should look for is how it interacts with its community, with its regulator. And that is -- for Fortis, that's one of our hallmarks, calling cards. Our employees are involved very heavily in all the communities that they serve. We gave dollars last year, $12.5 million to our communities. That does not even come close to the volunteer, the value of volunteer hours that were provided by our employees to their communities. And that -- successful utility business has to be engaged in its community.

So capital plan. We are up from $14.5 billion last year for the 5 years to $17.3 billion. The 4 key areas of increase are: we announced earlier this year the transmission project in Ontario called Wataynikaneyap project. This is a partnership with 22 First Nations communities in Northern Ontario to connect them to the grid for the first time. There's a lot of benefits that will come to those communities as a result of this. We own 49% of that partnership. And currently, the federal government will contribute $1.6 billion to that project. We have a leave to construct in front of the OEB currently that we're working our way through. We hope that we will get the approval on that in early '19 to commence the construction of that project. We have included it in our 5-year plan, largely related to the agreements between the province of Ontario, the First Nations, ourselves and the federal government to proceed with the project. So very excited about that. It's, I would say, a signature project for our company. And every day we engage with the First Nations, they teach us more, so we're very excited about the progress there. And Gary Smith, who is with us here today, one of my executives, is the key executive involved with that project. And Scott Hawkes, our Ontario President, is here somewhere as well. And he is clearly leading that for us here in the province.

Very excited to say that ITC's 5-year CapEx is going up by $900 million. When we bought ITC, we obviously engaged with the market a lot and the market was concerned about ITC's growth rate slowing. It was also concerned about lower ROEs. I said back then that my desire was to prove the market wrong, that ITC was going to continue to grow nicely, that ROEs were going to remain stable. My gut is that's where we're going to be. And

this growth -- increased growth that Linda will take you through is very much evidence of a faster-growing ITC. And with the regulatory compact that ITC has, every dollar that we invest in that business is worth a lot more than a dollar invested in many of our other businesses or all of our other businesses, frankly.

In Arizona. Arizona is growing very nicely right now. David will get into the economic growth that's occurring there. Our CapEx is up $600 million. I do believe, no pressure David, that we're going to see bigger numbers in Arizona. It is a dynamic state. It's returned to its positioning of being in the top 5 fastest growing states in the U.S. It was there for many decades. There's a lot happening in that jurisdiction, and we have very reasonable, practical regulation in the jurisdiction. I'm very optimistic about our long-term prospects there. And finally, we're seeing one of our large Canadian businesses pick up its growth rate. FortisBC has a very large network of pipe -- gas lines in BC. It also has electric business there, but the gas business is the largest business, almost 50,000 kilometers of gas lines in the province. And that's driving our capital plans in that jurisdiction.

So what does this translate into? As I mentioned, our next 3 years, we're growing our rate base by on average 7% a year, 7.1% over the 5-year period. It translates into 6.3% rate base growth, growing rate base to $35.5 billion by the end of the period, that's 35 Newfoundland Powers right there, so it's pretty amazing. We're adding a Newfoundland Power every 6 months at this point in time to the company. Hopefully, we can do more in Newfoundland, so we can reduce that differential. But we are very proud of this program. It's really what's needed to serve our customers well, to protect the grid and do our jobs frankly. So what's interesting, Jocelyn has a slide a little later, that does show that run rate of 7%. We've been on that rate. Now this -- if we achieve this over the next 3 years, which I fully expect we will, we would have grown our rate base by 7%, that would be 8 years at that point in time. So with, I guess, the last 5 years, on, I'll call, it a same sales -- same-store sales basis, excluding the acquisitions, we've grown our rate base by that 7% level.

And not in our plan are many other opportunities that we are working on. Things like move to renewable power in the Caribbean and switching out, using the cost of fuel to add renewable generation. We have projects like the Erie Connector at ITC, which is the opportunity to connect the grids in Ontario to PJM for the first sort of direct connection. These are not in our plan. We continue to move them forward. We have exciting prospects in LNG infrastructure in British Columbia. We have storage opportunities and transmission opportunities, renewables in Arizona. These are not in our plan, and some of these will come to fruition over the next 5 years and beyond the 5-year period. So very optimistic that we can continue to grow the business well, and we'll continue to progress many of these opportunities.

And this is my favorite slide. It shows up every now and then in our materials. When you look at it, we've increased our dividend for 45 consecutive years. That's a damn good record. If you project out what our guidance does mean, it means, using a base of $1.70, which is where we were before the -- this morning's announcement on our annual dividend, it will grow that dividend to $2.27 by year 5. And that's sort of the targets that we've set for ourselves. And based on the capital plan that we put forward, we expect to be able to meet those targets.

So now we're going to go to Roger, and before Roger comes up, I want to just say -- and Roger is going to talk a little bit about this, but I just want to single him out because he did a great job for our company last week. He managed through a very tough crisis in British Columbia, Enbridge's line ruptured the large gas line, 36-inch line that supplies most of our customers in BC with their gas. And we were, obviously, facing a very tough situation. Luckily, the 30-inch line is back in service and we're -- most of our customers have gas at this point in time. But the prospect of having to relight 700,000 customers was facing us midweek. Roger responded with his team very, very well, did an excellent job as a new CEO of that business, bringing his team together to respond to that crisis and informing the government and customers and doing everything we needed to do in that circumstance, and continues to, obviously, manage through that at this point in time. So I'm going to bring Roger up, and he'll give you little more details on that.

Roger A. Dall'Antonia - *FortisBC Energy Inc. - President & CEO*

Thanks, Barry. Good morning, everyone. It is a pleasure to be here, given as of Friday I wasn't sure I was going to be able to make it. But as Barry mentioned, we had a very interesting week in Vancouver in BC with Enbridge pipe rupture. Just bit more on that project. Enbridge, for those who don't know, had 2 main pipelines that serve the load in BC, but also in the Greater Pacific Northwest, 36-inch line ruptured up north outside of Prince George. They took the 30-inch line down for precautionary reasons. So on Tuesday night, we are faced with a prospect of potentially losing gas to the Greater Vancouver area, I suppose 700,000 of our million customers, 70%. There's also concern further down the system in the Seattle area. It was really a testament to the commitment and dedication of our employees who worked through the night to make sure that we were able

to manage gas supply. Great coordination with utilities in Pacific Northwest. I can't say enough about our U.S. counterparts down in Washington, Oregon. Coordination calls through the night to make sure that they could push gas up north to our system. And then a very special thank you to our customers. We put out a call for conservation for our residential commercial customers, our industrial customers to basically cut nonessential gas use. And we probably reduced use about 20% within the first 24 hours. And that really got us through the first couple of days. Enbridge was able to get the 30-inch back up fairly quickly. It bought them time, it bought us time. And now, we're all focused on Enbridge getting the 36-inch line back up before winter hits. We had about 70% of our customers that were facing a very serious disruption. So just a very big thank you to the commitment of everyone who made sure that we're allowed to keep gas flowing last week and allowed me to be here, so I'm very thankful to be able to do that.

So just a bit of a primer on what we have in BC. We're primarily a natural gas utility as well as an electric utility. The map on the left is our natural gas service area. We're the predominant gas utility in the Province. We serve for about 96% of the gas customers in BC from Fort Nelson up north down the spine of BC and then into the southern part across the border of BC and Vancouver Island. We have about 1 million gas customers. On the electric side, we're centered in the southern interior in the Okanagan and in the Kootenays, for those who know the train in BC. We serve about 175,000 customers, so 1.2 million customers on a combined basis. 49,000 kilometers of gas lines and about 7,000 kilometers of electric transmission and distribution lines.

And in addition to the predominant T&D business on the gas side, we do have 2 LNG storage facilities in the utility and a gas storage facility up north. And on the electric side, we have for hydroelectric facilities within our utility. We actually own the oldest dam in British Columbia, commissioned in 1908.

So the story in BC, the last number of years we've enjoyed really strong customer growth, averaging 1.4% over the 5 years on the gas side. Last couple of years, we've been adding about 20,000 customers, and on the electric side about 2,000 or 2,500. What's driving that growth for two fairly mature utilities is the strong fundamentals in the BC economy. I think we led the country last few years on GDP growth year-over-year. It's well above 3%. And our unemployment rate is at historic lows, around 5%, again, both well ahead of the Canadian average.

What's driving the gas growth, in particular, is also the gas supply situation in BC, abundant natural gas reserves up north. Low prices, last 5 years you've seen a consistent march down in the commodity cost. That's really given us a competitive advantage against alternate energy, in particular electricity for applications in residential, commercial and industrial use. As an example or as a comparator, on a kilowatt hour basis, natural gas delivered to the home is about $0.035 to $0.04 kilowatt-hour. In BC, we're on 2-tier electric system, first tier is about $0.095, the second tier is about $0.135. So you blend that into the $0.11, $0.12 versus the $0.035, $0.04 for a family of four a single-family home, you're probably saving about $1500, $2000 a year on your energy bill. And BC is a high-cost living jurisdiction, so that does matter for a lot of families. So we've seen quite a bit of gas growth, especially of the conversion nature. And housing starts, like most of the country, have been continuing to be very strong. So we hope to see that customer growth continue here in the next few years.

So just one of the unique features about BC is really the focus by successive provincial governments on innovation, especially innovation around environmental policy. BC was the first jurisdiction to introduce the carbon tax. Carbon dioxide in Canada is now at the highest level. Continuing to see the government push environmental policy with respect to GHG emissions reduction. That has sort of given us an opportunity to push innovation within our utility. We are the first utility in North America that developed an offering for end-use customers to be able to elect renewable natural gas to be part of their commodity, anywhere from 5% up to 100%. We're also the first company that we're aware of that piloted onboard truck to ship LNG fuelling. That's one of our tankers in the middle picture that's on a BC ferry fueling LNG for the ferries. And then one of the areas that we're starting now to look into is hydrogen injection into our natural gas system. In Europe, there is a number of systems that are using 5% or 10% hydrogen blending into natural gas system to decarbonize their gas stream. We're now looking at that project as well. That's a picture of a 20-megawatt electrolyzer in Germany that we went to visit. So the footprint in BC or the mindset very much pursuing environmental policy is giving us an opportunity to play into that.

So when we think about our capital plan, we break it down into 4 main buckets: our sustainment capital and customer growth is really our base business. That's our ongoing base capital. System maintenance, system reliability, customer growth. We are now focused, as Barry mentioned, a big initiative on major integrity projects, which I'll talk about. We still see very attractive LNG opportunities in British Columbia. And finally, back to the innovation discussion, we see some opportunity for spending on sustainability initiatives that are aligned with provincial policy in BC.

So our plan for the next 5 years, it's $3.5 billion of capital, split between the electric and gas utility, predominantly the gas utility, but still significant spending on the electric utility. That's a $600 million increase over the previous plan. What's driving that $600 million really is the focus on system reliability, integrity and safety. We do have some significant reliability on the electric side as well. The picture at the bottom is our Upper Bonnington Generating Facility. That is the oldest dam in BC, 1908. We're retrofitting 4 generating units there. You go in and see the turbine blades, back in the day of craftsman, they're all made of brass, so it's quite safe for those who are engineers in the room. I see Gary smiling about it. So yes, $600 million increase in the capital plan for Fortis in BC.

So when we break down that $3.5 billion, $2 billion is sustainment and customer growth. And by that, that's really the ongoing maintenance required of the gas and electric business, system maintenance capacity upgrades. That also includes customer growth spending, investment and general plant spending as well. The integrity portion is about $1 billion, and that's constituted by 3 projects: the Inland Gas Upgrade Project; and the Transmission Integrity Management Capabilities Project. I'm going to go IGU and TIMC for the rest of the presentation to make it easier; and then the third project is our Lower Mainland Intermediate Pressure System Upgrade Project, which is half way complete now.

For the LNG opportunity, we have $400 million of capital, predominantly the Eagle Mountain-Woodfibre Gas Line Project, which we're continuing to advance with Woodfibre. As well, we're looking for further opportunities at our Tilbury site in Delta BC for further expansion. And then finally, we have earmarked about $100 million in sustainability initiatives, primarily expanding our portfolio of renewable natural gas projects within the province as well as further expansion of our natural gas for transportation offerings, CNG and LNG for transport.

So on the sustainment capital, the $2 billion that split the $1.5 billion on the gas side of the business, $0.5 billion on the electric side of the business. What's unique about both sides of the ledger is that there is no major projects within that $2 billion on the gas side. The 2 largest single projects, one is a capacity upgrade project in the Okanagan in the interior BC, that's about $40 million. And then the BC government is replacing one of the bridges that goes into Vancouver. Our pipe is on that bridge. We're going to have to move that pipe likely and under river crossing, that's about $35 million. Everything else there is of smaller size. We have about $40 million a year that goes towards our customer growth. On the electric side, it's a similar story. The largest single project out at $0.5 billion is a project to replace 14 spill gates on one of our hydro facilities. That's about $65 million in total. We've just started that project this year. Second largest project is the unit life expansion -- extension of the Upper Bonnington facility, that's $35 million, and it's a refurbishment of the 4 turbines within that unit. And then on the electric side, we have about, say about $10 million to $15 million a year on customer growth initiatives. Within there, we do also have significant IT spending on the cybersecurity. Over the 5-year plan, we have about $15 million, $20 million on the gas side and about $5 million to $10 million on the electric side.

So going to spend a bit of time on the integrity projects, that is the largest increase in our plan of about $1 billion. And it's comprised of 3 main projects: the Inland Gas Upgrade Projects, about $200 million; the Transmission Integrity Management Project of about $0.5 billion; and the Lower Mainland Intermediate Pressure Project. The graph on the right is the age of our transmission gas lines. We have about 3,000 kilometers of gas lines that we classify as transmission pressure out of the 49,000 kilometers of pipe we have in BC.

From an age perspective, about 56% to 58% predates 1990, and then the remainder 42-or-so percent is post 1990. Now that age isn't specifically an indicator of health. There's lots of really old pipe that's brand-new, pristine. Really what the age graph shows us is that pipe of a certain vintage, different designs, specifications, different construction practices, it really is where we're focusing a lot of our integrity work as we manage the overall transmission system. I'll get into both of those projects in more detail shortly, but the last project there, the lower mainland intermediate pressure system upgrade, that's a project that has been in the -- has been underway now for over a year. We're about half way done. For those who visited Vancouver recently and tried to get downtown, we had shut down the major thoroughfare heading into Vancouver. To much interest of the community and public, but we did it in August when traffic was fairly light. And I think we did a good job managing the community relations around that project. We should be complete that project early 2020. And so far things are going quite well on that project. And that was simply a replacement of a backbone piece of pipe that brings most of the gas from our transmission system into Vancouver, down the main commuter avenue into Vancouver.

So when we talk about the 2 integrity projects, just take a step back, the way we classify transmission projects is based on pressure, operating pressure. Our transmission system operates typically from 500 pounds per square inch up to 2100 psi. The pipe diameter goes anywhere from 2-inch up to 42-inch. So it's not really just the pipe diameter, it's the pressure with which the gas is going through the pipe. Our current in line inspection tools we really are only able to run those in the larger diameter pipe, 10-inch, 12-inch diameter pipe up to the 42-inch diameter pipe.

The first project, I mentioned, the Inland gas upgrade project, what it's really going to focus on, if you look at our concentric circles there, the green and the gray about 400 kilometers of pipe, what we're going to do is take our current ILI technology and we're going to be able to deploy that in the smaller diameter transmission laterals, 6-inch to 8-inch diameter as well in that part of our transmission system, that diameter pipe we're looking to reconfigure to reduce the operating pressure of those laterals. So that will apply to about 400 kilometers of our 3,000 kilometers of transmission pipe. The transmission integrity management project, that is really focused on the dark blue. We have about 2,000 kilometers of a larger diameter pipe that we run inspection tools through. Within that, we're looking to adopt newer technology to improve detection of gas line cracking, which is an issue for transmission pressure pipeline. And that's what the transmission integrity project is focused on. We should be able to introduce new tools to about 1,400 kilometers, of the 2,000 kilometers that we're currently running ILI tools through.

So on the Inland gas upgrade project what we're targeting is, if you look at the map, we have these purple circles. So our 6-inch to 8-inch transmission pressure laterals, they're the laterals that come off of the main transmission pipe in BC, and they serve a bunch of communities off main transmission lines. So for instance, if you look in the middle of the map, you see Mackenzie, Prince George, Williams Lake. We run laterals off of the Enbridge pipeline that we're just referring -- mentioning the one that had ruptured. So that's the main Enbridge route down the middle of BC. We run transmission laterals off of those to serve those communities.

If you look at the southeast corner as you come through Cranbrook from Alberta into BC, that's TransCanada's pipeline. We run laterals off there to serve our communities. And then in the interior Kelowna, Osoyoos, we run our own southern crossing pipeline, and we have transmission laterals running off of that project or off that pipeline.

So the project itself is really to look at those laterals. It will be pipe reconfiguration, so we can put tools, inline inspection tools through those pieces of pipe. It will also be reconfiguration and replacement of pipe to allow those lines to run at lower pressure. And again, it's targeting our 6-inch to 8-inch diameter transmission lines.

And then over on TIMC project, that's really the adoption of new technology or new work technology. The technology is referred to as electromagnetic acoustic transducer, or EMAT for short. It's the established or becoming the established industry method for detection of gas line cracking. So I'm going to try to give a lay person's description of the technology. So if you think about existing in-line inspection tools, they run the length of the pipe and they use a magnetic field to test for wall thickness as well as if you think about it, they have almost like fingers on the outside that run the length of the pipe to see if there is any deformity or any gaps opening up in the pipe.

This technology is a little bit different. It will use electromagnetic field to vibrate the pipe, and that will send ultrasonic sound waves down the pipe and it will measure change in those sound waves to see if there is any cracking horizontally along the pipe, something that the current tools don't do a good job of doing. This will improve the ability to detect gas line cracking.

And this is really focused on the larger diameter pipe, 12 to 16-inch diameter up to a 42-inch diameter pipe. Similar to the other project, it is going to be reconfiguring pipe to make sure that the tools can fit through bends to get longer range of testing. It may also involve some pipe replacement to address operating pressure restrictions.

And then just moving on to the LNG story in BC. We are seeing continued increased demand for BC LNG, particularly from Asian markets. You've seen the last couple of years, as oil prices have rebounded, the price of LNG landed in Japan has increased. The BC story, abundant low-cost gas. It's about a week quicker shipping lines from Gulf Coast plants. We see much greater interest in the last couple of years now on LNG from BC into Asia. The LNG Canada announcement couple weeks ago has been very positive. Generally, very good support in the province for that project. It demonstrated clear market fundamentals for BC LNG into Asia. And it showed very strongly the support by both the federal and provincial government for major infrastructure spending in BC, which from our perspective is very positive.

Our opportunity is a little bit different than the LNG Canada. We're really looking at really 3 main areas. We've been at the domestic LNG for transportation for a while now, and we're continuing to make progress on road transport LNG in tractor trailer, trucks. Marine bunkering is a new area. It's one we've got 4 BC ferries, another on the way as well as a commitment for about another 5 ferries over the next few years from BC ferries. Seaspan, a local company, they are running 2 of their barge ferries off of LNG. The advantage is about $0.30 roughly on cost, but it's also cleaner burning. So there is local marine bunkering opportunity. More broadly, there is a strong push from the marine industry to look at their emissions.

Marine fuel is very dirty relative to LNG as a marine fuel. We've been working with the Port of Vancouver, federal government as well as ports in the Pacific Rim to see if we can be part of a network to allow container ships to go from Asia into BC, down the coast and have refueling depots for LNG to support the conversion of container ships to LNG.

And then finally, we're getting a lot of interest for small-scale LNG exporting. The first 2 projects, domestic LNG for transportation, marine bunkering, really are within our regulated utility. The small-scale LNG exporting is going to be point-to-point delivery of LNG from our facility to Asia.

So in our plan, we have the $400 million dedicated to LNG. The primary project within that portfolio is our Eagle Mountain-Woodfibre gas line project. For those who aren't familiar with the project, Woodfibre, an Asian company, is planning to build an LNG export facility, 2.1 metric tons per annum of LNG, just south of Squamish. For those who are heading up to Whistler Surrey, you'll look over across Howe Sound, you'll see the old pulp site at Woodfibre. Our project is really expanding our existing 50-kilometer transmission line. It actually goes into the site right now. We did serve it when it was a pulp mill. Our project is really significant expansion of that system into the Woodfibre site. The net investment for us will be about $350 million of rate base. And with the status of the project right now we've been very active with Woodfibre as well as BC government as well as First Nations on engineering, procurement, permitting plans. We're hoping to see a notice proceed from Woodfibre here in the next several months, and we're working closely with them to be prepared to start construction and hit their target day, which is the end of 2022, early 2023, for service.

And then finally on the LNG projects, we have our Tilbury site, which is in Delta BC, right on Fraser River. That's schematic of the layout of our existing Tilbury facility. We own 2 of the 6 LNG facilities currently in Canada. We have the Tilbury facility in the map. And then we have our Mt. Hayes facility on Vancouver Island. Mt. Hayes is predominantly an on-system storage facility as is the Tilbury legacy facilities. We call it, which is the white tank on the graph. We also have the Tilbury 1A, the other white tank, which is all within our regulated utility. And that's really serving on system storage, but our domestic LNG opportunity as well as our initial marine bunkering with the ferries in BC.

We are also the first company to ship BC LNG to China. We loaded on to ISO containers, which are basically the shipping containers, with a cylinder inside, fill that with the LNG and put them on a container ship. We've sent now about 50-odd containers to China. We still have about another 20 to 30 anticipated over the next several months. So it's a small indication of the opportunity in China and in Asia for BC LNG. So we were the first to do that. Now the current opportunity for us is that yellow bar, which is what we're calling Phase 1B. And then if you see the green line, which is the jetty. Phase 1B is simply adding more liquefaction to our existing tanks on the Tilbury site. It will increase LNG production capability. And the intent is with the construction of the jetty, we will be able to expand our marine bunkering opportunity. The jetty is being built by our partners, WesPac. They've started the process on the environmental assessment. And hopefully, we'll be in a position to have that underway late next year. And that will really underpin the expansion of Phase 1B to serve the marine bunkering market. And then Phase 2 and Phase 3, those are the nonregulated opportunities. Those are about 1.5 million tons per annum each of the additional tank and liquefaction. And those will really serve end-use customers in Asia under long-term tolling arrangement. They will be providing upstream gas in transportation. There'll be responsible for the shipping logistics. Our opportunity is really the liquefaction services within our system.

And then finally just touching on the sustainability trends. As noted, BC government very much focused, like the federal government, on emissions reduction. BC has the same targets as Canada does, the 80% reduction by 2050. For us, we see that as a real opportunity. We see our gas and electric utilities as drivers of the plan for the government to achieve that emission reduction. We have a number of really interesting opportunities. From a spending perspective, the primary opportunity is an expansion of our renewable natural gas program. We just signed an agreement with the city of Vancouver at their landfill to capture landfill gas from there, scrub it and put it into our system. On the natural gas or transportation side, expanding the incentives to get more trucks on the road using CNG and LNG. In BC, much like many provinces, transportation is about 40% of GHG emissions. Heavy-duty return to base fleets are the biggest part of that 40%. We see a real opportunity to convert from diesel to natural gas, cheaper as well as cleaner burning. And on electric vehicle charging, in the -- on our electric service territory, we are actually putting in rate base electric vehicle charging stations, fast chargers to try to support the adoption of electric vehicles within our service territory. Couple of other opportunities we're looking at that aren't in the plan. We are working with a couple of First Nations in BC to try to develop utility scale solar for a sale back into the grid. And we're looking to expand our demand side management incentive program for overall conservation of energy throughout the province.

So with that, I'm going to turn over to Mr. Hutchens to give us the Arizona story.

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

Good morning, everybody. We're going to go south of the border, south of this border. And although we're going to be talking about a U.S. subsidiary, all the numbers that I'm going to talking about are in Canadian dollars, and I'll even work in a few metric system examples in there just to keep it interesting and catch up on all my unit conversions.

So first, let's talk about Fortis' Arizona company, which is UNS Energy. It consists of 2 vertically-integrated electric utilities, Tucson Electric Power, which you can see in that little green spot there, which is the smallest geographic footprint on the map, but is 80% of our business. And that's a vertically-integrated utility. And when Barry keeps talking about we don't have any generation, that's where it all is, is the Tucson Electric Power. So we'll talk about what we're doing from a sustainability perspective quite a bit about that.

UNS Electric is the other vertically-integrated utility. And that serves the dark blue areas on that map to counties 1 down by the Mexican border and then one in the northwest portion of the state. Tucson Electric Power has about 420,000 customers, and that's 80% of our overall UNS Energy business. UNS Electric is about 10% of our business and serves about 100,000 customers in those 2 counties. Between UNS Electric and Tucson Electric Power, we have about 3,400 megawatts of generation capacity and about almost 700 megawatts, I'm going to round up there, 700 megawatts of renewables on that system. The last regulated utility in the UNS Energy group is UNS Gas. We serve about 150,000 gas customers, and that's in all of the blue areas, light blue and dark blue on that map, big geographic footprint. They serve about 13 PJs, this is my metric system, petajoules of gas volume on an annual basis. So all 3 of those utilities are regulated by the Arizona Corporation Commission. And of course, the transmission and wholesale activities that we do at Tucson Electric Power and UNS Electric are also regulated by FERC.

So as Barry mentioned, the state of Arizona is a -- has a very strong economy, very low unemployment, high job growth. But it's more important obviously, if 80% of our businesses is in the Tucson area to talk a little bit about the Southern Arizona or Tucson economy. We've probably got the most economic development activity in the past couple of years than we've had in over a decade. We've got a couple big expansions of big names that you've probably heard of like Raytheon and GEICO in the Tucson area. And then a couple of other big names that have moved in, Caterpillar put their big surface and technology mining division down in Tucson, brought in 600 engineers and are building a large building downtown for that. And of course, Amazon, if anyone has heard of them, they have put a big distribution center or what they call a fulfillment center down in southern Arizona. It's a big deal for us as well.

Probably bigger from our business perspective is the mining development. Mining has always been, from an Arizona perspective, one of our economic pillars. And when you look at 2 of the big projects, Hudbay's Rosemont mine, which is a copper mine, and if that comes on, will instantaneously be Tucson Electric Power's largest customer with over 100 megawatts of demand. If anyone has followed some of the other mining activities, South32 has purchased a big zinc mine, which is down in UNS Electric service territory. And if that comes online, it will be UNS Electric's largest single customer.

So when we talk about our capital plan, you can see the $600 million increase from $2.9 billion in the last 5-year forecast, the $3.5 billion. And this -- and $2.9 billion was a large capital plan for Tucson Electric Power, and it's -- and for its sister utilities as well. But that additional $600 million puts us at $700 million a year from a capital perspective. And that is probably about a 15% increase from what we had in capital budgets prior to Fortis purchasing us back in 2014.

So the $600 million increase is primarily 2 projects, one is a transmission project that I'll talk about and the other is a renewable energy, a wind project. Breaking down the $3.5 billion across the value chain, you can see that it is very evenly distributed across distribution, generation and transmission investments. When we talk about this being a highly executable capital plan, I just want to give one example, and that's on the generation side. If you look at those reciprocating engines, Gila River Unit 2 and a 150-megawatt wind project that we have there, you'll see that it will take a very simple transaction. In fact, to buy Gila River Unit 2, all we have to do is write a check to Salt River Project. We currently have a PPA with an option to purchase that unit. And when we write a check, that unit will become ours. Same from the perspective of 100 megawatt -- 150-megawatt wind project is that it will be a build to own transfer, that is being built by a very reputable and experienced wind developer. And at the end of that development, we write a check and we get that wind project. The reciprocating engines is basically 10 plug-and-play 20-megawatt fast-starting reciprocating engines. And that's a very easy project to manage. And from the perspective of execution, we already have all 10 of those units on-site and ready to start development here in the next couple months.

So the business trends that -- what you'll see here when we talk about the business trends that push UNS Energy's capital budget up, you'll see that these are the same messages that you'll hear from a lot of North American utility. The only difference is, our opportunities are a little bit better. When you look at delivering cleaner energy, and you'll see this in a minute, we are starting with probably an outsized opportunity here for us at Tucson Electric Power to change drastically our generation portfolio. When you look at transmission opportunities, this is just something that is new and has presented itself over the last couple of years as a growth opportunity for TEP to develop and connect some markets, both renewables and connecting markets in Mexico. Grid modernization, there isn't probably more than 2 or 3 utilities across North America that have more distributed energy resources on their distribution grid than Tucson Electric Power has. And so we have to figure out how to integrate all those renewables and still maintain an affordable and reliable grid. And lastly, from a growing economy perspective, as Barry mentioned, Arizona is the 5th fastest-growing state in the U.S., and actually, historically, we've been in 1 of the top 3 for decades and decades, and have just recently taken a dip down in the last decade. So we expect that growing economy to continue and boost. That's the best growth of any of these things on here, is when we're adding customers and adding infrastructure, serve those customers, that's the best spot that we could be in. And again, we have a supportive regulatory and legislative relationship and policy. When you see what we're investing in, you'll say these things make complete sense. These are low-risk investments and something that both our customers and regulators are all fans of.

So on the clean energy side of the equation, when you look at what Tucson Electric Power had from a resource portfolio back in 2014, when Fortis purchased us, we had 80% coal in our portfolio. Now at that time and actually still currently, the Arizona renewable portfolio standard requires 15% renewables by 2025. We were, obviously, on that path to comply with that renewable portfolio standard, but when we looked at our portfolio, we said this has to be more balanced, this has to be a broader balance of renewables, natural gas and coal in our portfolio. We don't have hydro or nuke, so those are the 3 things that we could possibly use. So we, as Tucson Electric Power, decided that we were going to do twice that renewable portfolio standard. We were going to produce 30% of our energy by 2030 from renewable energy. And that's why you see on the right that 30% renewable energy and roughly about a 1/3 for natural gas and coal. When you step just a little bit beyond that 2030 time frame, that drops down to really evenly -- even thirds of renewable energy, natural gas and coal production because one other coal plant will be shut down right after 2030. Now you'll say that looks like a big difference to get from where you were, 5% in 2014 to 30% in 2030. Today, as we sit here in 2018, we'll already be producing close to 14% of our retail demand from renewable energy. So we're well on our way to meeting that requirement and quite a bit ahead of schedule. Next year, we fully expect to meet the Arizona RPS requirement of 25%.

So that leads into, well, what opportunities from an investment perspective does that bring us? Well, we can invest in renewables like solar. And in this case, we have 150-megawatt wind project that we're looking at investing in, in New Mexico. Now that -- this is a great project for 2 reasons: one, obviously, it helps us meet that 30% renewables by 2030; but probably the bigger benefit of this New Mexico wind is the fact that it has the opposite load profile of solar. It produces more at night, less in the middle of the day to provide that complementary load shed. Because if you do too much solar, you create all kinds of operational issues. And I'm going to talk a little bit about this on this slide. You don't have to be a utility operations expert to understand what this is. I'm going to tell you the good and the bad things of this slide. The bad parts are when you have big ramps that go down and then back up, which is what that yellow curve does, this is what we would expect on a typical day in 2030 with 30% renewables on our system. The other bad part is when that yellow curve dip below the blue. Now the blue curve or the blue line there is amount of minimum generation that we need to have online on any given day so that we can ramp up and hit those peaks. So if you have to have all that generation online, but you can't back it down far enough, that's a problem. That area between basically the blue area above the yellow line is telling you that you've got an oversupply issue. And there's only certain things you can do in an oversupply issue: One is you back down that solar or wind or whatever it is and just don't take it in, which is an option, but that creates -- that makes it more expensive, you're turning away essentially free energy; or you figure out a way to store that energy and use it to meet those peaks. The ideal spot to be in is where you have enough energy storage where you can take that excess generation that's happening in the middle of the day and push it to those morning and evening peaks. So I got to tell you that this is -- this very much oversimplifies the issue of having that much renewables on your system because the intra-hour variation is extreme. When you look at the 5-minute to 10-minute difference in load, both load and resources, it moves around quite a bit with 30% renewables. So you have to have a lot of generation online to manage those ramps. The other thing that this doesn't really focus on, this is on a system-wide basis. When you look at the requirements from a distribution standpoint, there's a lot of feeders that will have a whole lot more solar than others and you have to manage each feeder and maintain the voltages for our customers in each feeder.

So this is what we're doing to prepare for it. We're doing those reciprocating engines, which I mentioned. That's 200 megawatts of fast start and fast ramping. Those are the 2 key parts of having that flexible generation on our system. We're going to have those in place by the time we get to 2030, they will be in place actually just in about 1.5 years. We also have 2 Gila units, one that we bought a couple of years ago, and one that we'll

trigger by next year. Those are combined cycles, which you can cycle on a daily basis, and again, have good ramp up characteristics, and more importantly, you can ramp them down so that you can lower that blue part of that curve and have a lower minimum generation requirement. We're doing distribution storage. We're doing at a utility scale level, meaning it's more than a megawatt. That's going to be very, very important for us to manage those feeder variations that I mentioned. But big -- from a big picture, longer-term, we need bulk storage. In order to have renewables on our system and at the level that we want to have it at 30% and others want to have it at higher than 30%, we need the ability to take that over generation that we have in the middle of the day from solar and push it to those peak periods. So we need bulk storage. It has either has got to be really cheap batteries or maybe something like a pumped hydro facility that we might be looking at, that you'll hear a little bit more from Linda on.

From a grid modernization perspective, there's 2 main goals that we're trying to do here. One is to integrate all those distributed energy resources. And in order to do that, it's not just the batteries that you need on the system, that helps a little bit, but you need to see into the system. You need a lot of sensors and you need control systems, so that you can see how the voltages and flows are behaving on a real-time basis. I'm going to tell you that probably 6 to 8 years ago, we had 3 generators in Tucson, 3 different local generating plants, and we had 3 interconnections to check the transmission system that brought the rest of the generation that we needed in.

Today, with all the distributed resources on our system, we have over 20,000 discrete systems of various sizes generating all across our grid. That means we really have to see what's happening at the micro level to manage it. And so that means investment in those sensors, investment in control systems, IT systems, which then leads to investments in cybersecurity and physical security as well. The other is to make sure that we're doing the things that our customers want us to do. And they have 2 primary things that they want, one is reliability. And so as we have all these distributed energy resources on our system, we have to maintain that reliability. The other is to provide them options, give them rate options and choices for how they can take service from us. So we are installing AMI, or the automated metering infrastructure, so that we have the information of what our customers usage is. We can get that to them, we can provide rate options, and we can also do things like investing in infrastructure that provides them the opportunity to charge their electric vehicle at home and also looking at ways for us to do public electric vehicle infrastructure investment as well.

So now we're going to kick over to transmission infrastructure. And we have 2 transmission investments that we are looking at right now that I'm going to take you through. The first is the 150-megawatt DC tie. Now this isn't from an investment perspective. The investment in the tie isn't a big deal for Tucson Electric Power or UNS Electric. We are investing in the tie in order to connect 2 markets. The markets that we're going to connect are southern Arizona, which is on the very southern tip of the entire western grid, to Mexico's northern grid. Hunt Power is the one who is actually developing this DC to DC tie. We'll be a small minority investor in it. But having that connection increases the reliability for UNS Electric. UNS Electric's investment comes in and the ability to connect their system, build a small $80 million Canadian investment in transmission to connect to the DC tie, that gives them an entirely different, more reliable backup than what they currently have. One of the other benefits of this project that we like from an entire UNS Energy perspective is this creates a connection between the North Sonoran Mexican grid and the Palo Verde market. And it creates that connection through Tucson Electric Power's transmission system, which takes energy from Palo Verde down to UNS Electric service territory. UNS Electric then can take it all the way down to the DC tie and get deliveries into Mexico. So we have all the permits done on this project. We actually just got the Presidential Permit on last Friday. And what we're doing now is working with off takers who are looking for the 150 megawatts to go across the border.

The other transmission line is much more related to renewable energy imports into both Arizona and California. There is a 600-megawatt project that you might have heard of called Southline. Again, it's a Hunt Power development. They are working in the Western Area Power Administration to develop this line because it connects to Western's system, increases their import capability and strengthens the backbone of their grid as well. Now we expect to take 250 megawatts of this project, about $400 million, which is included in our capital plan. And again all the permits are there, and we're ready to go on this project. We just need an off taker for the other 350 megawatts of either transmission or delivered wind. There is wind at the end of this project. That's the project that we're trying to get our 150 megawatts investment in. And once that's done, this project will be built. There is, again, another ancillary benefit. It's not just about delivering energy or delivering wind energy into Tucson Electric Power service territory, but this also strengthens our backbone of the grid that supplies to Tucson Metro area, which will allow us to reduce the amount of local generation that's required to run at high load periods. Another benefits that this provides is both of these have a similar benefit and that's another transmission throughput benefit. You are connecting the New Mexico grid to the Arizona grid, and if you want to get to California the way that this project is connecting is into TEP's system. So you can then get on TEP system and take the energy from the Southline project, all the way to

California, the Palo Verde west wind markets. So that's one of the real big interests that we have in it is as we create the ability to get more throughput on our transmission system, it creates a lower cost for our retail customers and basically broadens the amount of customers and, in this case, wholesale transmission customers that are paying for the infrastructure that we need.

So you're going to ask me this in Q&A, if I don't bring it up now, so I'm just going to take it head-on. We're going to be filing a rate case at Tucson Electric Power early next year with a 2018 test year. That's our current plan. 2019 is going to be a busy year because we're also going to be filing a rate case at FERC. Out transmission system at Tucson Electric Power hasn't had a rate case in quite a while. With these investments coming, we want to get in there, we want to get formula rates and we want to get our rates updated, so that we can recover this more quickly as we invest in it over the next few years. You can see that UNS Gas has a rate filing in 2020 and UNS Electric in 2021. There is -- obviously, if you follow Arizona and you follow the politics of Arizona, you will probably know that there's 2 commissioner seats that are up for election. That election, obviously, happens here in November. And then another 2 years later, will be replacing the other 3 seats. So 2 out of 5 are up for election this year, and in 2020, the other 3 seats will be open.

So lastly, again, I think this will be -- is probably on a lot of folks minds, if you follow us or other utilities in the state of Arizona. Our existing renewable portfolio standard, as I mentioned, is 15% by 2025. Our target is 30% by 2025 or -- by 2030 in the same definition, meaning that it's going to be the same definition of renewable, solar, wind and bioenergy, et cetera. There is a pending constitutional ballot initiative called Proposition 127 that is out there. And if you may have heard about it, it would require 50% renewables by 2030. So 50% by 2030 versus our 30% by 2030. So what do we think about this policy? Well, one, it's bad policy because this is doing energy policy in a ballot initiative. It puts a hard and fast requirement in a constitution, removes all the flexibility of regulators to look at the cost and reliability effects and decide whether or not you should be doing the investments that it requires. So that's a big issue for us. The other big issue from a policy standpoint is the fact that it talks about clean energy, but is only renewable energy. It doesn't include hydro. It doesn't include nuclear. It doesn't include energy efficiency. And those are the things that you have to have a balanced view on from an energy policy perspective to supply a portfolio full of clean energy.

So the bigger issue associated with this is the fact that this will be a very large bill impact for our customers. And again, you look at the difference between 30% in 2030 and 50% in 2030, and say that doesn't sound like a lot. It can't be that big of an impact. I can tell you that we have looked at it, and we have estimated that if this proposition were to pass between now and 2030 on top of what we're doing to get to 30%, that additional 20% will require USD 2 billion, call it CAD 2.5 billion of additional investments in renewable energy and storage. So the part when people talk about solar is cheap and wind is cheap, that's on an energy basis. It doesn't include the capacity that you need on your system to provide the ramping and the smoothing of those resources. When you put all that stuff together, that's a lot of additional investment in infrastructure. And you're probably thinking, well, that doesn't sound too bad, that's sort of the business that you're in. If you had to do another $2 billion, isn't that good from a company perspective? It can be good from a company perspective, it can be good from an investor perspective, but if we're doing something that is not good for our customers in the long run, that's going to be bad for us as a business. And that's the position that we have taken on this ballot initiative. Just for a frame of reference, if you look at what that $2 billion of additional investment would mean from a customer bill impact, out in 2030, they'd be paying more than $400 more per year for that 50% renewable energy than they would based on our plan. So there is also one other...

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

Those are U.S. dollars, right?

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

Yes -- sorry, yes, those are U.S. I knew I'd get caught up between the U.S. and Canadian, those are U.S. dollars. But -- again, to put it in perspective, that's about 30% rate increase. So an extra 30% rate increase to get to that additional 20% renewable energy. One other proposed state-wide energy plan that you may have heard of is called Arizona Energy Modernization Plan that's been put forward by one of our commissioners. Now this sounds like a really big number, 80% clean energy by 2050. So it's got a different definition because in this case, clean energy does include the things I mentioned before, it includes nuclear, hydro, energy efficiency, biomass, it includes all of the things that we as a state should be investing in from a clean energy perspective. So that's, obviously, just a proposal at this point in time and hasn't been taken up on a docket. But if this gets

on a docket and gets into discussions in workshops in Arizona, this is actually a pretty reasonable policy. 50% -- I'm sorry, 80% by 2050, with those -- the caveats of including all of those real clean energy sources could be good for the state, and that would probably increase our investments a little bit, but not to the extent that the renewable energy-only proposition would do.

So with that, I think, we're going to take a break for -- 10:15, break until 10:15.

(Break)

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

So to start us off now on the second half of our Investor Day morning, we have Linda Apsey with ITC.

Linda H. Apsey - *ITC Holdings Corp. - President & CEO*

Good morning, everyone. Thank you, Stephanie. Pleasure to be here this morning. And I was just -- actually, last night, I realized, while I knew it was the right time of the year, it was actually 2 years ago, yesterday, that Fortis acquired ITC. So obviously, quite a transformative. Certainly, a transformative transaction for Fortis, but I would say for ITC, I would say it's been a nonevent. And what I mean by that is -- no, what I mean by that from a positive -- from a very positive perspective as I think about the company, its direction, what you're going to hear about today and on behalf of all of our employees, our mission, our purpose and our focus has not changed one bit as a result of the transaction. And -- but I would say the benefits we get to be part of a larger organization and can't say enough about the cultural fit that so often Barry talks about, and ITC, I think, would concur we couldn't have asked for a better partner, a better owner. So I just wanted to reflect on that for a minute given it is our 2-year anniversary since we -- since the transaction.

All right. For those of you, I'm sure you're all familiar with ITC, we've talked a lot about in the last two years, but just a quick background. We are a solely independent electric transmission company. We cover 8 states, primarily in the Midwest, the Great Plains region of the U.S. And within our 4 regulated operating utilities, that comprises over 16,000 miles of high-voltage electric transmission facilities in over 560 substations. And that really is what provides sort of that basis for our historic track record of capital investment as well as what we're going to talk more about today and that is our next 5-year capital plan.

One of the things that probably differentiates us from most of the other businesses within Fortis as well as most of the other companies within the utility space is the fact that we are a single FERC-regulated transmission entity. And we enjoy a forward-looking, formula-based rate mechanism, which, obviously, we enjoy higher returns at the FERC level as well as enjoy that return on a higher equity component. And much of that is attributable to the fact that we are an independent transmission company. We are different. Our risk profile is different. But really, for us, it really speaks to sort of that rate mechanism not only our history and track record of investment, but also as we think about our business going forward and the benefits that, that affords us to make the necessary investments that our industry and our business still requires.

So speaking off just a little better perspective on this USD 7.7 billion, sort of where those dollars have been spent. We started the business at ITC 15 years ago. We first started with the ITC Transmission assets, then subsequently purchased the METC assets, which are in the west side of Michigan. So we've spent $4 billion, reinvesting in that infrastructure that I mentioned in Michigan, where we have spent to date over $3 billion in ITC Midwest, that's the system that covers the Iowa, Minnesota, Illinois area. And then, we started a utility business from scratch in Kansas and then further had the opportunity to realize some transmission projects in Oklahoma. And that business has afforded us about $0.5 billion of transmission investment. But perhaps, I think not just from an investment perspective, obviously, are we proud of, more importantly, it's what have we done. What have we done for the benefit of our customers and driving reliability and driving value. And we wake up every day at ITC with a focus on operational excellence. We focus on being better tomorrow than we were today. And what we have seen through the history of our ownership is a continual improvement in our performance. And our performance, whether it's in safety, we are a top decile performer in our industry when it comes to the safety of our employees, but -- as well as our performance on outages, whether those are sustained outages, momentary outages. And you can see from the graphs here, we have driven significant performance improvements on our system. And that's attributable to the both the investments that we've made as well as our focus on our maintenance efforts. We focus on preventative maintenance as opposed to reactive maintenance.

When we first bought the systems that we own, about 80% of our maintenance dollars were spent on reacting to incidents outages issues, 20% of it was preventative. Today, we're probably the exact opposite. We're 80% preventative maintenance and 20% reactive. And that drives huge value, huge benefits for our customers, because preventative maintenance is a significantly less expensive than reactive maintenance.

One of the other things that we're really proud of at ITC is that we are a leader in the U.S. in connecting new renewable energy sources. And for us, given our service territory, that's primarily to date been wind energy. We've connected over 5,700 megawatts of renewable energy. Beyond that though, I think, more important, I'll get to in a minute, is the amount of wind energy, particularly in our territory that's still sort of in the queue and expected to be connected. But again, a lot of our investments have been driven by sort of this transition to cleaner energy and more and more wind energy. But the benefit of that in a recent study by ICF captured the savings of that wind energy that we've connected to be approximately $600 million over the sort of 2008 to 2014. And that really is just indicative of the fact there's lower production cost savings. Those benefits continued to accrue to our customers and for us, at ITC, as I said, everything that we try to do traditionally and historically in transmission, it has been difficult to measure, quantify the benefits of an investment in transmission. We talk about having sort of projects that have economic benefits. We talk about projects that have reliability benefits. But the truth is any given investment, any given project has both economic benefits and reliability benefits. And it is often difficult to measure what is the value, what's the benefit of that outage that you never experienced. But we are getting more and more sophisticated in how we measure benefits, how we measure value for customers, as well as the RTOs. The RTOs are getting a lot more sophisticated in the tools and the methodologies and the forecasting to try to measure the benefits and value. And so this will continue to be a big focus and a big driver of everything that we do at ITC to ensure that everything we do is needed and ultimately has value and benefits for our customers.

So as we think about sort of historically where we've been and sort of the capital investment, the spend at ITC, a lot of that has primarily been driven by sort of reliability improvements. The systems that we bought, in sort of simple terms, I could say are fixer-uppers. These were not the crown jewels of the U.S. transmission system. This were fixer-uppers and so we benefited from a lot of that investment. Our customers are starting to see the benefit from a lot of that investment. But we're also seeing, obviously, as I talked about, as we transition to cleaner energy future, a lot of generator interconnections, a lot of new transmission needed to facilitate renewables, grid security, cybersecurity, physical security, resiliency, a lot of issues, a lot of new NERC standards that drive us to make needed investments to make our infrastructure more secure. We talk about new technologies about the investments that we make being able and capable to integrate new technologies. We talk about storage, distributed energy resources. And then, the other area that we've enjoyed significant investment from and will continue in the future is sort of this notion of access to regional markets. As a transmission owner within each of our regulated operating companies, we have a high degree of control over what we see are the needs on our systems and our ability to propose projects to make those fixes, to make our system better.

Where the industry I think still remains challenged is building those larger regional transmission projects that transcend transmission owners, that transcend state boundaries and ultimately will transcend RTOs. And the Midwest ISO took a big step forward in terms of their MVP portfolio, that effort, that portfolio of projects at this point -- I think, that was introduced almost over 10 years ago, and we'll talk a little bit more about where we are specifically in that, but we're continuing to see more and more needed transmission to address sort of the ability to get the renewable energy to market.

And in 2018 alone -- we think about ITC and its investments back into the transmission grid. But in 2018 alone, according to EEI, the -- all the utilities in the U.S. have spent over $100 billion just investing in their transmission grid. So it's sort of indicative, if you will, of sort of not just the historical trend of investment, but the continuing trend of needed investment in the transmission grid. Because the reality is the transmission grid has really seen no meaningful investment since really the last buildout, which was in the 1970s, over -- almost 50 years ago. And so you're starting not just from an aging infrastructure perspective, replacement of infrastructure, but, obviously, as we shift to cleaner sources of generation in more remote locations, obviously, all of these things are driving the need for new transmission investment.

And as I mentioned, obviously, right, the shift to renewable energy, we all know, we're all familiar, we all talk about, historically, when you think about the transmission grid, how it was built, what its purpose was, its purpose was really to move electrons from local-generating stations to local load, to local customers. Obviously, over the course of last 20 years, as wholesale markets have developed, as we've interconnected our systems with other transmission systems, but as we think more about the future and where we're going, we're going to have to have a transmission grid that's really capable of sort of having more bidirectional flow and potentially where it can accommodate distributed resources, where the customers are putting generation back on to the grid. We're going to be able to incorporate storage, where we're going to have to be able to incorporate

new technologies that perhaps we're not even thinking about today. So you really do start to see this emergence of a model from a historical one-way flow to needing our grid of the future that's going to be able to accommodate sort of the bidirectional flow and the intermittency of renewable resources.

So that brings me to what I would say is the punchline of today, the really exciting news is, while ITC has enjoyed a significant track record of growth, I'm really excited to highlight that sort of from a plan-over-plan perspective, ITC's capital plan, 5-year capital plan is increasing by $900 million. That's a 25% increase in needed infrastructure. But for me what's probably more -- what's more important is not just sort of the historical, we're going to continue to need to make improvements in terms of reliability upgrades. We're going to have to interconnect all the new sources of generations, which are going to continue to drive needed investment. But I think what we are seeing not just at ITC, but within the RTOs is really now starting to plan the transmission grid for this, what I would call, sort of grid of the future. And what -- one of the things when we were acquired by Fortis and Barry, obviously, is pushing sort of the organic growth message, we inside ITC sort of took that to heart. What -- instead of looking at historically how we planned the system, how we think about and needed investments, how do we really think about the effect of intermittent resources? How do we think about the effect of interconnecting remote resources and its impact on the day-to-day operation of the grid? And by going through that exercise and doing sort of studies and looking at sort of much of the same sort of study process, but looking at it through a different lens, it yielded different results. And for us, when we think about sort of the $900 million in incremental CapEx over the next 5 years, it's in projects like -- and probably one of the ones I think I'm probably most excited about, it's not a single project that has a huge dollar value attributed to it, but it's indicative of our independent transmission company model. And that is what came out of looking at our system, looking at the needs on our system in Michigan, just a highlight an example, we are pushing forward a project that's going to be several what we call static VAR compensator devices that's going to increase the import capability into Michigan by approximately 1,100 to 1,200 megawatts. So that's increased import capability or increased capacity into Michigan. For those of you that are familiar with Michigan, we're a peninsula state, hold up my hand. We have limited interconnections. And so this is a really cheap project to get 1,100 or 1,200 megawatts of increased import capability, right? You could never build a generator to get that much capacity for what this project is estimated to cost, about $100 million. So it's not a significant dollar amount, a huge significant benefits and value for our customer. If we were a vertically integrated utility, we would never ever, ever propose that project. Never. And this is attributable to the -- demonstrates the value of our independence and how we focused on the transmission grid and the needs and benefits for our customers. And that's one simple example of a project that's included in our plan that speaks to the increased capital.

Beyond that, we're seeing a lot of new needs for load interconnections. One of the other big incremental projects in our plan is the need to build a new underground transmission project into the city of Detroit. Detroit is experiencing significant economic growth, albeit it's been a long time coming, but it is amazing and fabulous to see. And as a result of that, we're going to have to increase the import capable -- capacity into the city of Detroit. And so those are the types of new projects that are reflected in our new plan.

And just to peel the layer of the onion back a little bit on sort of what is comprised into the $4.5 billion capital investment plan. $3 billion of that, as I would say, are sort of the blocking and tackling the infrastructure investments to rebuild aging circuits, its reliability improvements, it's to address increased capacity, circuit overloads. So kind of like, again, a lot of your blocking and tackling the things that we have historically been focused on. That's the -- sort of the single largest sort of bucket of our 5-year plan.

We'll talk a little bit more sort of we -- remaining in our 5-year plan. We have $700 million that sort of falls under the bucket of sort of major capital projects. I'll come back and talk about those in a little bit more detail in a second. We have $500 million for grid security. As Barry mentioned earlier, this is -- continues to be a growing need on our system, based on sort of reliability standards as well as good practice given the threats that our industry faces. And so we have $500 million in our 5-year plan to enhance the security of our grid. And that comprises various investments of both physical and technological improvements, essentially a new fiber optic system for us to communicate across our system.

And then, of course, we have $300 million in there for new interconnections that supports sort of both economic development as well as interconnecting new sources of generation, particularly renewables in the ITC Midwest area as well as in Michigan. Michigan, we obviously are sort of on a ramp to retire many of the fossil fuel plants. Consumers Energy has recently announced a plan that would call for 5,000 megawatts of solar and storage to replace much of their fossil fuel generation, although I would note that Consumers' plan for their 5,000 megawatts of solar, none of the interconnections that would -- maybe needed or necessary are reflected in our 5-year plan. We don't know enough or understand enough about that quite yet, but presuming that they continue on that path, it surely will require new transmission interconnections.

So talked a little bit, when we talked, about sort of the major buckets of capital projects. For ITC, ITC has probably been the single largest beneficiary of, what was MISO's MVP portfolio, MVP being multi-value projects. These were really projects that were identified and deemed as necessary to address what was then a very lengthy wind generator interconnection queue within the MISO process. So the -- there was a number of projects, 7 multi-value projects that were identified. Michigan ITC Transmission built the very first one in the thumb area of Michigan. And now as we continue through the process, ITC Midwest has been designated to build 4 projects in that MVP portfolio. And there, sort of portfolio of projects was approximately 300 miles of brand-new 345 lines over 4 new substations and obviously, those cross at 3 state boundaries.

To date, ITC Midwest has invested approximately USD 390 million to date in those MVP projects. And through the 5-year plan, we still anticipate spending about $280 million on the remaining projects to see those to fruition.

The thing I would say right as we think about sort of these MVP portfolio, we're nearing the end of that sort of cycle of investment. Most of those projects are either built and in service or they are in the midst of various stages of regulatory approvals, construction, whatever the case maybe. But fundamentally, when MISO looked at their basket of portfolio of projects, they estimated that the benefits from those investments ranged anywhere from $12 billion to $52 billion over the next 20 to 40 years. Again, multiple sort of, if you will, benefits in those types of projects, whether it be lower production cost, whether it be reliability benefits, facilitation of wholesale markets, numerous different benefits that they measured. But it really just speaks to sort of the benefit and need for transmission infrastructure to facilitate sort of a more economic future.

One of the things, I think that sort of shocks me is that every time one of these multi-value projects goes into service, they are at full capacity. And so as we build these projects, we build them at 345 kV. It really begs the question sort of as we think about sort of the wind that's in the queue, the -- I think there's over almost 50 gigawatts of wind interconnection in the MISO queue alone. I think there is, I think, almost 90 gigawatts in the SPP queue. Even if all of that doesn't come to fruition, even if 25% of it comes to fruition, even if 50% of it comes to fruition, it really just speaks to and demonstrates the need for continued investment in this large regional transmission infrastructure. And so I know there is a lot of attention, a lot of focus, particularly at the Midwest ISO thinking about sort of what does this next basket of regional projects look like. I don't think we're there yet. We have a number of other, what I'd call, hurdles that we need to figure out, like cost allocation, who's going to pay, just a little issue, before we can get there. But really when you step back and you look at what is happening in the Midwest, in the Great Plains area where you have this huge proliferation of wind, when Dave talked about in terms of solar in his neck of the woods, there's absolutely no doubt that this -- the U.S. is on a slow and steady march to transition their generation fleet from fossil fuels to renewables. And for a company like ITC, who is really strategically located in sort of the wind mecca of the United States, I think that means tremendous upside value from an investment perspective in the future.

The other big bucket of major capital projects. Obviously, when we acquired the ITC Midwest system, we made a commitment to convert the existing 34.5 kV system to 69 kV. This is a very old-aged infrastructure, the 34.5. Essentially, what we're doing is we are sort of replacing and upgrading with 69 kV and retiring the existing 34.5 kV. When -- initially, when we acquired the system, we thought we could do that transition in 5 to 7 years. Needless to say, this is a huge massive project that requires significant collaboration, cooperation with all of our customers. Because it means taking system outages, our customers have to buy new equipment on their side of the investment. So this project has been extended. So now we're looking at overall a 22-year investment program to rebuild that system to 69 kV. I think the good news is we are already seeing the benefits for the portions of the system that have been converted and are in service. We're really seeing the benefits of those investments in terms of significantly reduced outages. ITC Midwest project. The total scope is about $740 million. We've invested about $450 million to date with about remaining $290 million through the 5-year plan time frame.

So as we think about sort of talked about sort of what's in the plan for ITC, all of that sort of $4.5 billion over the 5-year plan is all fully regulated within our operating companies, highly executable transmission projects. There is nothing in our plan that is nonregulated. There's nothing in our plan that is a significant big risky project. It's all highly executable projects. That -- for the most part, most of them all go through the Midwest ISO planning process, their stakeholder process. So all of those projects are vetted. They're approved before we spend any capital to deploy. So again, some are subject to sort of our regulatory construct, our regulatory model, but I would think about our plan as being sort of highly executable and all regulated infrastructure.

But incremental to our plan, and important to ITC in what we do, what we focus on, is, obviously, continuing to drive incremental opportunities above and beyond what we have identified in our plan. And from my perspective for sort of the investment drivers that I mentioned earlier, this is

sort of the same ones you're going to see again. I -- we are going to continue to see additional investments required as to enhance the security of our system, both from a physical security perspective as well as the cybersecurity perspective.

So we see it every day. We're engaged with NERC as we think about sort of grid security standards and more is coming. Recently, Barry and I, Dave actually had a recent conversation with folks at Department of Energy, this was the single biggest issue in our conversation. They are -- DOE is focused on it, the FERC is focused on it. And so I think we're going to continue to see more and more requirements around grid security.

Same I mentioned new technology. Obviously, storage. When we think about storage, we are starting to see plans, proposals for projects introduce themselves, both in the MISO process as well as SPP, 580 megawatts of storage plans, 2 gigawatts in SPP. And so as we think about the needs for the future, we'll talk a little bit about Big Chino Valley, but more to the point, I think Dave was making earlier, right, as you think about sort of intermittent resources and when they produce power and when they don't, storage is going to become more important and more and more important part of how we operate the day-to-day grid. And then, of course, as we think about electric vehicles, we continue to believe that there we'll see a more and more penetration of electric vehicles. Obviously, right now, today, understanding specifically what the impacts are on our system we don't know. But we would anticipate if electric vehicles continue to propagate and proliferate to some of the forecasted rates that we see, one could anticipate that those are going to also have significant impacts on the needed investments for the future.

Talked a lot about generation shifts. I mentioned, the MISO and SPP queues. The amount of wind -- mostly wind resources that are in those respective queues. And like I said, we could argue over whether all those will come to fruition or not. I don't think they all will, but I do think a pretty significant portion will, which will have a tremendous impact on the operation and reliability of the existing transmission grid.

And then, again, thinking about sort of access to regional markets, the -- sort of first basket of MVP projects primarily focused on projects that were fully within the MISO region, typically transcended sort of 2 transmission owners. And I think what we can anticipate going forward as looking at what transmission projects are needed across state boundaries as well as across RTOs. We are well aware of needed projects that would have huge benefits to customers, that would sort of transcend the MISO-SPP border, the MISO-PJM border, but unfortunately, the current planning processes don't really allow those projects to come to realization. And so -- but I think that's just a matter of time until those issues are addressed.

Switching gears a little bit and talking about sort of those incremental opportunities above and beyond our 5-year plan. We've talked a lot about the Lake Erie Connector project. We still remain very optimistic and excited about this project. For those, just a quick refresher. It's about 1,000-megawatt, high-voltage D.C. transmission line that would be buried beneath Lake Erie interconnecting sort of around the Nanticoke, Ontario to Lake Erie -- Lake -- or to Erie, Pennsylvania. It's about $1 billion capital opportunity. From the point at which we commenced construction, it would take us 3 years to put that project into service.

We've obtained all the necessary regulatory approvals, which unlike sort of what I would say traditionally regulated projects, the regulatory approvals typically come on the back end. For development projects like these, we tend to see the regulatory approvals on the front end. So our focus and attention continues to be on securing the contracts with shippers. And I would just note, obviously, given sort of the political change here in Ontario, much of our recent efforts and focus have been engaged with the Premier's office, the Ministry of Energy on our project. And so those conversations continue and are constructive.

And then Big Chino Valley. I won't mention too much of this. Dave, I think, gave a really good description of sort of why sort of the concept of pump storage is necessary. And for us, ITC is the developer of the Big Chino Valley project. It really is sort of thinking about sort of how do we address what we see as a fundamental underlying need on the system in that part of the country. So Dave talked a lot about sort of what's going on in Arizona as Arizona pushes to more and more clean energy, but obviously, this project is located pretty close to the California border. And for those of you that don't know, California has mandated that they're going to be 100% renewable by 2050. So projects like our Big Chino Valley project are absolutely essential and necessary if Arizona, if California, other parts of the country want to sort of transition to a cleaner energy fleet. Because -- if we don't, there's, obviously, going to be -- it's going to be very uneconomic. We're going to have a lot of wind energy, solar energy that's going to have no home. And so a pump storage facility really provides sort of a home pump up the pond and sort of those off-peak hours and then, obviously, sort of release the pond, release the generation when we're on peak hours. This isn't a new technology. Obviously, there are pump storage facilities all across the U.S. and Canada, but certainly, sort of I think, the basis -- the need for this project is a little different than what we have historically seen.

So we're really excited about this project, I would say, just to kind of temper sort of expectations. This is a big project. Significantly large-scale project. Recently, Barry, Dave Hutchens and I had the opportunity to visit the site. It was quite a site. And it's large. It's big. And it's in the middle of nowhere. But ideal for its proposed uses, proposed purpose. So more to come on that, but I would, obviously, think about this in terms of sort of what is continuing to drive future needs, future investments, but obviously, much longer range, not in our 5-year plan. But we will continue to work to advance the project, because I think it has all of the right elements and purpose of what's needed in this country as we think about transitioning.

So as I mentioned, ITC, our focus is on building the grid of the future, right? So not so much looking backwards and thinking about how we used to do things, but really looking forward. How do we build that needed grid of the future? And that's going to be comprised of continuing to invest in our existing systems, reliability upgrades, security upgrades, new load interconnections, new generator interconnections. But for what I'm excited about, we are going to continue to see change as we move forward. And all of those changes, I think, are going to introduce incremental opportunities for ITC as well as the transmission grid as a whole. And so we're going to continue to see incremental transmission opportunities and at the same time, obviously, we're focused on development opportunities to sort of bring our model, if you will, and to focus on needed transmission investment to address underlying system issues to get us to that grid of the future.

So with that, I'm happy to turn it over to Ms. Jocelyn Perry, Executive Vice President and Chief Financial Officer.

Jocelyn H. Perry - *Fortis Inc. - EVP, CFO*

Thank you, Linda. Barry mentioned earlier that this is my first year as Fortis's CFO, first Investor Day. And I'm 5 months in. And I must say I'm excited to be a part of what these folks are talking about. It's been a quick 5 months, having to get up to speed with all of what's happening. But it is a pretty good time to be joining Fortis. And I've been a part of the Fortis family for over 16 years, but happy to be back to Fortis. Certainly, not a nonevent for me, Linda, I must say. It's been everything, but that.

So my role here today. I just have a couple of slides. We've spent a fair amount of time already this morning on the capital growth plan and -- from the key drivers in our business. My purpose here today is to give a step back in a consolidated view as to what this looks for Fortis and how we're going to migrate through. The objectives are quite clear. When we look at our financial objectives, it's pretty simple and transparent. We now have to execute on the capital plan that's been delivered here today. And Fortis has a very strong history of executing on its plan. So I have all faith that we would do that, but that is one clear objective that we have. As we grow, obviously, it's very important that we maintain our investment grade credit rating. So I'm going to talk a bit today about our funding strategy as we go forward with this growth plan. And then, certainly, I wouldn't want to be the CFO that didn't deliver on the 6% annual growth dividend growth guidance that we just announced this morning. So objectives are quite clear, and I think you'll see as we get to the end that we're delivering on those objectives.

Taking a quick look back before we look forward, as I said, Fortis has a very strong track record of delivering strong results. And Barry mentioned this earlier, that the rate base growth, 5-year historical rate base growth has been in the order of 7%. So as we look forward, the rate base growth is -- in the first 3 years is 7.1% and the 5 years, 6.3%. So we've had a very strong history of delivering that 7% -- 6% to 7% rate base growth. In that a lot of that rate base growth, obviously, came from our Western utilities. When we look at our 5-year EPS, historical growth and this includes the acquisitions over that 5-year period, we've delivered 8% EPS growth. So very strong results. And when you look at the payout ratio over that period, it's in the range of mid-60s to low 70s. And we've said that that's the comfort spot that we believe is reasonable for a dividend payout range for Fortis. So again, very strong historical results for Fortis.

And as we go forward, again, you've heard it here already this morning, we're focused on growing our base business, our organic growth strategy. And as we look forward, the capital plan has changed since this time last year from $14.5 billion to $17.3 billion. So that's a $2.8 billion increase, and we were quite happy to announce that this morning. And that translates into a rate base growth for Fortis of 6.3% over the 5 years and again, 7.1% for the first 3 years. And that growth projection is allowing us to extend our dividend guidance out to 2023.

So when we look at the spend for our capital program, it's pretty -- I don't call it flat, but it's pretty consistent over the 5-year period. And that's a good thing. I mean, there's no one particular year where it's a steep hill to climb. It's a pretty relatively consistent capital plan. And I'm going to dive a bit deeper into that. There's a little bit of a back up curve there. Dave talked about earlier, with UNS there is some renewable transmission

projects that are earlier in the program, Roger talked about certain resiliency and upgrades in FortisBC Gas that are more geared towards the latter part of our 5-year forecast. But overall, it's a pretty steady capital program. And as I'm going to get into, this capital program is very, we call it, low-risk, highly executable capital plan. We said it last year. And it's relevant and applicable for this year. Even though we've increased it by $2.8 billion, the profile of the plan is still very similar to Fortis's previous 5-year capital plans. It's just a larger number.

When we break down the capital program in a little bit more detail, we see that 99% of the spend is from our regulated operations. Drivers clearly are ITC, UNS and FortisBC Gas, but 99% is regulated investments. That's what we like.

When we do the split between what we call major capital projects and smaller projects, the major capital projects we deem them as anything over $150 million. We only have 10 of those. And they're actually outlined in the package that you have there today. And that's very similar to what you would have seen in Fortis's previous 5-year capital plans. So the bulk of the capital program, 77%, is made up of what I call just sustaining regular capital work of the utilities. So again, no additional risk that we see when we look at a plan like this as we go forward into the 5 years. No change in the risk profile for the capital program.

And then looking to the split between the U.S. This follows, obviously, our split with our assets in the U.S. and in Canada, and we're seeing 55% of our capital investments actually being driven out of the U.S. utilities.

When you step back and look at rate base growth in a little bit more detail and just split it out by company. You'll see here, again, overall for the 5 years, 6.3%. When we take it down to the individual companies, you'll see Central Hudson, they're at 8.4%. While it's a smaller part of our overall rate base, they are growing by 8.4%. This was all part of a plan, a 3-year plan that was just approved by that utility, and they're seeing -- there is -- it's for infrastructure upgrades and I'd say technological advancements within their service territory. But they're certainly growing at a strong rate.

Linda has talked about the rate base growth within ITC. David has talked about the 6.3% within UNS. And obviously, Roger has talked about FortisBC Energy. All of these -- the ranges of 6% to 7%. We're happy to see that the organic growth plans of each of the individual utilities are actually within that range. And I will say that for each of the U.S. utilities, in particular, the 3-year capital program is even a higher cumulative average growth rate in the first 3 years, which is good. When you look at other Canadian -- and we're not forgetting about our other Canadian and Caribbean assets. They're growing at 5.3%. So dare I say that we do believe they made progress with respect to their own individual organic growth plans. And dare I say that we probably believe they have more room to grow, but being smaller utilities, sometimes it takes -- they're doing what's right for their customers as they should and -- but we do believe that there's room for further improvement in the growth rates within our own Canadian and Caribbean assets.

So as Barry mentioned, we are actually increasing rate base by $9.4 billion over this time to $35.5 billion. That's a nice size utility there. And Barry's right, we're adding more than Newfoundland Power many times. And if you reflect on from where we were last year, that $2.8 billion increase actually translates into a 6.3% average growth rate. Last year, it was 4.5%. So we've made some very measurable improvements in our rate base growth projections from this time last year. Some of it had to do with U.S. tax reform and we have alluded to that, that U.S. tax reform actually is positive on rate base, but it's not the story here. The story here is the increase in the capital plan that we've actually outlined here today. And again, the growth is mainly driven by our U.S. utility investments.

Which is why this slide has nicely followed that particular slide because we will -- we're constantly looking at the regulatory compact in each of our regulatory jurisdictions. And this is just to depict the weighted average allowed ROEs within the U.S. and within Canada, and the weighted average equity thickness in both the U.S. and Canada. So as you can see, the allowed ROEs in the U.S. on average 10.58% for us versus 8.73% in Canada. So our consolidated or combined U.S. and Canadian allowed ROEs is 9.93%.

And then when you look at equity thickness, in the States, it's around 55.2% in our regulatory jurisdictions with -- as opposed to Canada, it's 39%. Overall, we're at 48%. So the consolidated of 48% and 9.93% is a good weighted average returns, but there's an obvious divergence between the U.S. utilities and the Canadian utilities, and this is something that we've spent a lot of time looking at and trying to understand. And certainly, there will be even more focus as we go forward to ensure that Canadian regulators, in particular, understand returns and the risk associated with utilities and the appropriate returns for utilities. And certainly, these things take a long time to change and -- but we believe that we do have work there

with respect to sharing the right information about returns all across North America. So that's going to be an area of focus for us over the next number of years.

When we look at the regulatory outlook, a couple of key regulatory things on the agenda. With ITC with the -- the MISO base ROE complaints are still outstanding. It's been a number of years that they've been outstanding. Hard to predict when we're actually going to get an order or hard to predict what the order will be because that's a losing game to predict. I will say that, just as a reminder, any decision on the ROEs with ITC are not retroactive. So any decision will only impact Fortis on a go-forward basis if there is a change at all. And for every 10 basis points change in ROE at ITC, that's about $0.01 change for Fortis in EPS.

So we do expect to get some clarity. I do understand that the independence adder complaint is on the agenda for FERC for this Thursday. So we may get some visibility as to how this is the -- or some further visibility on that complaint. But until then, we continue to earn our 11.35% with ITC. UNS, David mentioned that they will be filing a rate case in 2019 with the 2018 test year, which is great. And FortisBC are targeting a PBR renewal filing in 2019.

So when we look at the growth that we've had, the other side of the equation is clearly a funding exercise. And it's important that as we grow, we fund growth appropriately. So the graph on this side is depicting how we anticipate or expect over the 5 years that we will fund the $17.3 billion. Big part of the funding comes from our regulated operations. The cash flow from operations after dividends are paid are going to fund around 69%, 70% of the capital program. Pretty steady cash flows from operations out of our regulated utilities. Also, as a part of within their regulatory construct and their capital construct, they obviously are going to be doing some regulated debt financing over that 5 years and that's going to account for roughly 23%, and 1% of the net refinancing's out of holdco refinancing. But the bulk of how the capital is going to be funded is through cash from operations and through net debt refinancing at the regulated utilities.

We've also disclosed this morning that as a part of our expected funding plan for our growth strategy is that we are reviewing and considering asset dispositions in some of our -- from some of our noncore assets. And I know that there's going to be a lot of questions. And as like David said, I'll just face it head-on with respect to what assets those are, and we're not in a position right now. Timing is everything. We're not in a position right now to provide any further clarity or comment on what those assets are, other than that they're noncore to our regulated utility investments. And we're working over the 5 years to secure $1 billion to $2 billion in proceeds. I would say that, I anticipate that it will likely be on the front end of our 5-year plan as opposed to the back end. We are taking or trying to take advantage of the positive market environment that's out there today.

So overall, we do not expect, over this 5-year plan, to issue any discrete equity over this time. We do have an ATM program, at-the-market program, that we're not contemplating using. It is there for additional flexibility -- funding flexibility if we need it depending on the timing of some of our capital programs or if some of the projects that were mentioned here today come to fruition and -- but the ATM is also available to us, should we need it.

And just quickly looking at the debt maturities on a consolidated basis over the next 5 years, on average $940 million, a manageable debt profile with respect to maturities. And on the right there, the consolidated credit facilities of $5 billion, we do have ample liquidity anticipated over that time. And most of the credit facilities are clearly with the regulated utilities.

So then at the end of the day, the funding strategy is done with a lens to certainly maintain our investment-grade credit ratings. And we feel that with the capital program that is in front of us, which is 99% regulated and growth coming from all areas of our business, that the credit rating agencies will certainly continue to see Fortis' business risk with this current plan as they say excellent or strong. It's all about having stable regulated operations, a diversified group of portfolio of assets and the plan that we put forward here today is consistent with that. So there's no change in the risk profile I see with Fortis' business risk.

This funding strategy that we also have will also see, and the capital plan that we have, obviously with the graph that's here, we improved the holdco debt to total debt by 13%; they were going from 38% to 33%. And that is reflective of the fact that the total debt at the subsidiaries is increasing because that's where the growth is happening. And also at the end of the day, this plan supports meeting our threshold cash flow to debt metrics that we closely monitor. We expect to maintain certainly those cash flow metrics that credit-rating agencies certainly pay attention

to as well. So this plan overall doesn't change the business risk. The funding strategy is in line with, in my opinion, in what would maintain our certainly our investment-grade credit rating.

So when we look at achieving our financial objectives we have to get there, of course, we have to execute upon the capital plan of $17.3 billion, strong track record of doing just that. I do believe this is an effective funding plan that will maintain our investment-grade credit ratings and certainly all supports us delivering on our 6% annual dividend growth guidance.

And with that, I will send it back to Barry.

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

So we're going to wrap up with concluding remarks and then we have a video that we're going to play and then we'll take some questions. So why invest in Fortis after all of that? I think it's pretty simple. We're a highly regulated business, heading towards, I think, like 99% regulated, highly diversified, probably the most diversified regulated business in North America. We have a very strong growth profile, 6% to 7% rate-based growth and lots of opportunity to extend that well into the future. That supports our 6% dividend guidance. And we can deliver that while maintaining our payout ratio where we've been historically in the high 60s, low 70s. And we have those opportunities beyond the plan that we continue to work on. But I think it's a strong message. We're obviously going to execute well on our capital plans and look forward to engaging with The Street over the course of the coming year to further explain our opportunities.

With that, we're going to play a video on sustainability. We have a star in this video, our EVP, Nora Duke, who talks about our evolution in this area. And after that, Stephanie is going to come up and coordinate the Q&A session. Thank you.

(presentation)

QUESTIONS AND ANSWERS

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

What a great video, Nora. Nice work. So as Barry mentioned, we're now going to begin the question-and-answer session. So today, if you have a question in the room, please just raise your hand. Annette Carberry and Angela Doyle in the room will go ahead and bring the microphone to you. And also, we encourage those joining us via the webcast to ask questions as needed and someone here in the room, Kealey Martin actually will be taking those questions on your behalf. So to open it up, does anyone have a question?

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Rob Catellier from CIBC. I have a couple questions. Barry, maybe I'll start with you. You've stood before us before and voiced your, I guess, voiced your displeasure or concern with the competitiveness of the Canadian franchises in the past. If anything, we can argue that Canadian businesses have taken a setback recently with competitive tax rates and whatnot. So my question to you is, do you think you're gaining any regulatory momentum on making the case for improved franchise, for ROEs and equity thickness, and if not, what do you think you have to do to gain that regulatory momentum?

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

I don't think we're gaining any momentum. I hope we're maintaining status quo right now because we can't go lower than where we are. This is not a good situation. From a Canadian competitor's perspective, if you look at the amount of Canadian utilities who invested in the U.S. over the last decade or so, we've almost got investments in every state in the U.S. at this point in time. If you look at U.S. utilities coming up to Canada, it's nonexistent. So that alone -- that capital flow alone should tell you something about where capital is going in North America. So for us, this is a

fundamental problem. We do have to work on it over multiple years and rate cases, being respectful to our regulators. Really convincing them of the story on why this is important for our customers long term to have healthy utilities that are not always on the line of equity thickness to the point of that being downgraded by our regulatory agencies. I will say to you, historically Canadian regulation has been good. There's been no major disallowances in Canada. There's been some of that in the U.S. But I'd also pointed out to you that U.S. regulatory compact has improved dramatically over the last decade or so, whereas Canada at best has held its own over that period. So we have to take this challenge on. You see the numbers for us. Our rate base in Canada was in the U.S. would generate about $150 million more in earnings than it does in Canada annually. That's a big number. So we do have to continue to work on it. Our teams there will be engaged in it. Over time, we hope that we can make some progress, again being respectful to the relationships that we have in each of our provinces.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

And my second question is probably a better for Linda. At ITC, we've had the MISO complaint dragging on for quite some time and then there's the independence rider issue. So how those 2 processes informed -- what have you learn from that and how does it inform your regulatory strategy going to the next rate case?

Linda H. Apsey - *ITC Holdings Corp. - President & CEO*

Yes, well, maybe first let me maybe back up a little bit just to kind of level set so -- because I'm sure if -- someone else will probably ask the question. Jocelyn somewhat alluded to it. FERC issued last Thursday their notice and agenda for their upcoming meeting this Thursday. And there are 2 matters on that agenda that sort of speak to, I think, sort of what part of your question is. One of them, as Jocelyn mentioned, is our -- the 206 complaint against ITC's independence is on their agenda. Certainly, we don't know what the decision will be, so I don't want to sit here and speculate. But obviously, we remain steadfast in terms of sort of Fortis' acquisition of ITC has not affected our independence in any way whatsoever, not to mention sort of the arguments that were used by the complainants are well beyond what FERC's precedent has been. Obviously, sort of that issue in terms of it does impact our the ROE that we can earn, on top of what has been ongoing uncertainty on the base ROE does continue to be obviously a matter of concern. Nobody likes uncertainty. I will mention the other matter that is on FERC's agenda for this Thursday, assuming that they proceeding issuing an order is they have the New England transmission ROE case on their agenda. And just to remind everyone what sort of is at the heart of that matter is the D.C. Circuit Court of Appeals found that FERC had errored in its decision-making around what was then the existing New England ROE. And FERC subsequently reduced that ROE without finding or at least it didn't justify why they've reduced that ROE because that ROE that was in effect was in that zone of reasonableness. So the court remanded it back to FERC to have FERC further justify, explain or potentially change their mind on sort of, you can't just make a decision to reduce someone's ROE if it's not outside the zone of reasonableness. So that's one of the issues that's at the heart of the New England complaint. The other issue that the court remanded back to FERC was FERC did not provide any justification rationale as to why they set the base ROE at the upper half of the upper half, so essentially 75th percentile for the base ROE. So those are 2 issues that are in the heart of the New England complaint. We fundamentally believe and had assumed that FERC would need to address those issues and that remand case in the New England matter before they can then address the pending MISO complaint #2.

So I would say, from our perspective, again we have certainly no insight as to what FERC might do on Thursday, but what I would say, though, is that I'm encouraged and optimistic that FERC is finally addressing this matter. This has been a matter that's obviously been pending for the better part of 7 years, particularly as it applies to New England. For the MISO transmission owners, we are now in our fifth year of uncertainty. So the fact that FERC has heard the industry that this is an important matter, this is an important issue, we have repeatedly heard from FERC that they're working on it, they're getting closer. And so I think what we're seeing now is that this matter is on the agenda, which would suggest that we're going to see an order that fundamentally addresses those underlying policy issues that the court remanded. So for us, in terms of what does all of this mean to us in terms of what are we doing, I think one of the things that I'm very focused on is we have -- we've been sort of standing out there as an independent transmission company 15 years. And at ITC, we know what the value is of what we do every day. I've just talked about it today in our presentation. We have to continue to do a better and better job, whether it be with FERC and new FERC commissioners, a new FERC commission, with our stakeholders, our state regulators, our customers to continue to drive that message of the value that we drive for customers every single day. And that's attributable to obviously our independence and singular focus on transmission. So that's part from me, what I would say, kind of looking back over the last 5 years and as we've lived throughout this uncertainty is that we have got to continue to drive the message

about the need for investment in transmission, what's going to be continued significant need for investment in transmission as well as we're differentiating ourselves from the rest of the pack.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

We'll go ahead and take a question over here from Linda.

Linda Ezergailis - *TD Securities - Analyst*

This is a question for Jocelyn. I know you can't elaborate too much on the possibilities of asset sales, but as you know, there's lots of permutations and combinations that we can imagine. And I'm just wondering if you could help us kind of narrow those possibilities by indicating whether some of those asset sales would be partial interests in assets or utilities versus outright sales. And also what the maybe full bucket of possibilities might be from a value perspective, just to give us a sense of your optionality and anything else you might choose to help us with?

Jocelyn H. Perry - *Fortis Inc. - EVP, CFO*

It's a hard question, Linda. As I said, the bucket that we're zoning in on is our noncore assets. So I talk about those as those that sit outside the regulated space of Fortis. Beyond that, whether we're interested in full sales or partial sales, I'd prefer that we not comment at this time.

Linda Ezergailis - *TD Securities - Analyst*

Okay. And maybe just as a follow-up then, this is a question for you or for Barry, but can you help understand what Fortis might look like in 5 years or 10 years in terms of geographic mix, in terms of how -- what the range of possibilities of unregulated assets might be from an income contribution perspective or any -- and maybe if you don't want to talk about specific geographies, just a sense of U.S. dollar versus Canadian dollar income mix.

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

Thank you, Linda. We're focused on North America. We're not looking at going to Asia or Europe. We still think long term, we can grow our business in North America. We like the space. It's comfortable. We understand the regulation probably better than most. In terms of mix, it's simple. I think we just laid it out in the $30 billion -- about $36 billion of rate base 5 years from now. We are skewing towards the U.S. in terms of growth. But it takes a lot to move the numbers. I think we -- just with that CapEx over the 5-year period, only move it by 1 percentage point more towards the U.S. I suppose if there were opportunities as much as I just said, some disappointing things about Canadian regulations that there was opportunities over time to rebalance back to Canada. In long term, I could see that as a reasonable goal for the business, especially if we could get the Canadian regulatory compact improving. So I'm -- we're pretty happy with where our focus is on North America regulated space. There will probably be some opportunities to do a little bit of a long-term contracted regulated -- sorry, nonregulated energy infrastructure. So things like the LNG project that we're pursuing in Roger's business, Tilbury expansion, that's probably $1.5 billion to $2 billion opportunity. By the time we get the 5 years out, our balance sheet is probably $60 billion. So it's pretty small -- still pretty small part of the overall balance sheet of the company. I don't see our regulated businesses growing as a percentage much beyond where they are at this point -- our nonregulated business much beyond where they're now. We're at a 3% kind of level right now. So -- but it will be in this -- if we do it, it will be long-term contracted infrastructure and not merchant in any way.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

We'll take another question over here.

Robert Hope - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Rob Hope, Scotiabank. Maybe just a follow-up on Rob's earlier question in regards to Canada versus the U.S. When you look at your valuations versus your U.S. peers, there is a continued discount there. We're seeing your growth rates to be much more in line there. How do you expect or how do you view the valuation discount in the current market, and what do you think the ultimate path on this would be?

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

Yes, I hate the discount and just I don't think it should be there, but the market is the market. So we got to deal with that really. And I think what we're doing here today is hopefully taking a step towards removing another impediment that the market might think in terms of why there's a reason why Fortis trades at a discount to the typical U.S. utility. I will point out, we're doing better than most of our Canadian comrades here. But that's not really our peer group. Our compensation, most of us up here's based on the 23 American investor-owned utilities. That's our peer group. And man, that's been a tough peer group to have. And so for me, it's removing every impediment possible that's causing that discount. And posting up this kind of growth is, I think, a step along the way. I hope, frankly, that we need, I think, support frankly from our Canadian shareholders. I'm realizing, yes, we got to get U.S. shareholders and European shareholders, but we need -- we're still 70% owned by Canadian-based shareholders. And we have to convince them that our stock is at least worth what a typical U.S. utility is worth. And that's at least 2 or 3 turns higher than where we're today. I hope we can do that over time and maybe it's a little bit about Canada generally a malaise about the country in energy and all stocks are being affected by that. So hopefully over time, we get back to trading at least at par. We used to trade at a substantial premium to a typical U.S. utility. But now the discount is there. So it's upside, I suppose. That's the way I look at it. We both -- have to discount the inferior Canadian regulatory compact. These are upsides that you have in Fortis that would not be present in a typical U.S. utility.

Robert Hope - *Scotiabank Global Banking and Markets, Research Division - Analyst*

And then just as a follow-up. In terms of allocation of your capital, you're increasing your spend profile in Ontario, yet with Premier Ford potentially wanting to reduce electricity pricing by 12%. Do you see that as a risk to the utility business here in Ontario and I guess, further as Ontario core?

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

I don't really. It's obviously -- there's been some challenges in Ontario. Some policies that have been instituted over many years that have really made the electricity system very uncompetitive from a North American perspective, and frankly trying to reverse some of that is a positive, in my view. For us, we have a small regulated franchise in Ontario, where the transmission opportunity obviously is a singular opportunity in Northern Ontario, but our remaining regulated business there is fairly small overall. We're trying to grow that business. It's been tough with the, I guess, the dominance of Hydro One and the Crown corporations. We haven't been able to sort of consolidate the municipal utility group. But we're still trying. We're making money in Ontario, which is positive. We never lost money in the province. So we continue to try to put more capital to work and really would like, frankly, long term to be a bigger part of the overall provinces energy infrastructure sort of business.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

Now let's check anything from webcast.

Kealey Martin - *Fortis Inc. - Director of IR*

There's a question on the webcast with respect to mining in Arizona. So how is Fortis collaborating with mining companies and what at stage are you in on the design and the build out of mining sites?

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

So we're not involved at all on the mining development. We're just the electricity supplier. So we don't get involved other than encouraging them from the standpoint of getting their permits done, et cetera, help in any way that we possibly can in greasing the skids on permitting. Obviously, most of those mines need permits for the transmission lines to serve them. So we take care of all that. But as far as actually being in the mining business, we don't do that.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

Great. Let's go over here to Robert Kwan, please.

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

David, I'll keep with you to start. You talked about your upcoming rate case and looking at formula rates. Can you just talk a little bit about what you're looking at there, is it really kind of trying to follow along the lines what ITC has with the forward test year and have there been discussions with customers and commission staff at this point?

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

So that's -- the FERC transmission case that we'll file will be exactly like that. We will want to be like a little ITC in Arizona with formula rate perspective at FERC and a transmission cost adjuster at the retail level at Tucson Electric Power. We already have one at UNS Electric and we're looking to have that same kind of mechanism at TEP. APS has a mechanism like that as well. So it's kind of that two-pronged approach, getting the ACC to give us that transmission cost adjuster and getting the formula rates from FERC.

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And I guess, Barry, just coming back to the Canadian versus U.S. discount. Are there tangible or specific steps that you're willing to take to look a little bit more like U.S. utility. You think about the cost of capital issues, that's been about every cost -- or rate case for a decade. So would you consider reducing using your Canadian exposure? How do you think about leverage, payout and giving guidance at the same time?

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

I'm not interested in reducing my Canadian exposure. What I'm interested in doing is working with the regulators to try to explain why there cannot exist such a big gap between U.S. regulation and Canadian regulations. The law in this area is the same in both countries. So this gap that's been created, we have to start closing it. And for me, Canada is an essential part of Fortis. The company was started in Canada, expanded across the country. We have great franchises in Canada. So this is something that we'll work on over long term. I would say in the U.S., there's been a lot of work in the past. And if you look at what the U.S. has achieved in the last 10, 15 years in terms of ROEs and pass through mechanisms and recovery and how that's improved, it took a lot of heavy lifting. But it did take hold. And there were white papers done. There was all kinds of things. I would say one thing that I've been part of this that's missing in Canada is a voice from the investor-owned utilities senior leadership on this issue. It's -- we've allowed our regulated businesses in each of the provinces to deal with cost of capital, but there hasn't been a strong Canadian voice from the likes of myself, Emera, Enbridge, the regulated businesses we're providing the equity to these franchises. We have been not that engaged, frankly. It's been -- now we've been guiding our teams on all that stuff, but increasingly we have to be open to engaging with our regulators about equity and the cost of equity and the competitiveness of the North American environment. So I think we're much more open to having those conversations going forward than we have had historically.

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

And then just on leverage, payout and guidance?

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

Well, in terms of the guidance, what we're saying is that we can achieve the dividend growth guidance that we've outlined, while keeping our payout ratio where we've been historically in the last 5 years. And that's sort of mid to high 60s, low 70s area. We're very comfortable with that. A lot of our Canadian peers obviously are much higher than that. We're sort of more like a U.S. utility from that perspective, and I'm fine with that. And while we're doing that, our balance sheet actually improves over the 5-year period. You see Jocelyn there showing the holding company debt to total debt. Our debt to rate base is coming down fairly dramatically over the period. Based on the strength of that investment in our regulated businesses, it's amazing what $9 billion of rate base over 5 years can do to how your balance sheet looks when you finance it the way that we're anticipating. So essentially, we're issuing no holding company debt over the 5-year period. No new net incremental holding company debt, 1%, I believe. It's a pretty strong picture from a balance sheet perspective.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

We'll take a question right up here, Annette.

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

Go ahead.

Winfried Fruehauf

Are fugitive natural gas emissions an issue for Fortis? If they are, how big an issue are they and what is Fortis doing about it?

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

First of all, Winfried, I'm so glad you're here, good to see you. I know you've been part of Fortis for a long time. I think one of my first experiences was answering a question from Winfried. So Roger, I'm going to pass this one to you that being said.

Roger A. Dall'Antonia - *FortisBC Energy Inc. - President & CEO*

Appreciate that, Barry. So the fugitive gas emission issue is one facing the industry, but yes, it's really focused at least in the Canadian context, I'm not sure where the U.S. is focused on the large upstream exploration production. Our system, which is strictly transmission and distribution has very, very low unaccounted for gas. We've got a very robust system. Our leak detection program is very strong. So our focus of this industry -- the focus has really been on the production upstream from our system.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

Question over here, please.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

Andrew Kuske, Crédit Suisse. Just sticking with Roger. Given the situation with the Enbridge Westcoast system right now, does that create some future opportunities, regulators really revisit the amount of pipe coming into the Lower Mainland? And do you see opportunities to do something like Southern Crossing all over again even though that was 20 years ago? Do you see greater resiliency coming in the future for the pipe network?

Roger A. Dall'Antonia - *FortisBC Energy Inc. - President & CEO*

Thanks for the question, Andrew. Yes, after the initial 3 to 4 days of activity in dealing with the immediate situation, one of the things we know how to look at is how can we make sure that we have greater redundancy coming into the Lower Mainland. Those that know the system, the Pacific Northwest really do depend on Enbridge's 2 lines, the 36 inch and the 30 inch coming right down the spine of BC. We have the ability to flow gas through Alberta on our Southern Crossing line. It's mostly a 24-inch line, but then the last part of it goes down into a 10-inch line. So we're going to be looking at whether we can bring that pipe at Southern Crossing all the way to connect to Enbridge to bring more gas across the bottom part of BC. The challenge then is that you're still dependent on the 2 lines of Enbridge coming into the Lower Mainland where 70% of our customers are. So one of the things we'll look at is, can we build more storage on system? We have the Mt. Hayes facility that provides storage on island. And then our Tilbury facility, we have the existing tank and the new tank 1A. Can we look for other sites in the Lower Mainland to give us neo-peak storage in the event of a disruption. So it is something that we're now going to take a much harder look at than we're planning to.

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

And none of that's in our plan.

Roger A. Dall'Antonia - *FortisBC Energy Inc. - President & CEO*

None's in our plan.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

Okay. And then just a follow-up and a little bit different, but really on the gas side of things, how do you think of Aitken Creek and how does that fit into the dispositions plan in the future in just gas infrastructure in Western Canada?

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

Well, I'm not going to deal with -- we're trying to avoid, talking about what assets we're looking at, Andrew. But I know Aitken Creek since we bought it has done incredibly well. It's performing ahead of expectations, and it's a pretty valuable piece of infrastructure for the entire Western Canadian gas system. Roger, I don't know what else you can add to that?

Roger A. Dall'Antonia - *FortisBC Energy Inc. - President & CEO*

No, I mean, from our perspective with the LNG Canada announcement, we see more opportunity for the Aitken Creek gas storage facility. We're connecting to TransCanada's North Montney Mainline, which they had approved earlier this year. There's the opportunity for us to expand the North Aitken reservoir. So that asset, I think, becomes more important going ahead with LNG Canada's announcement. So from our perspective, it's critical to the overall gas system in BC.

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

I will say, Andrew, Roger always winces when I say this, but I would like to get it into regulated rates at some point in time. That was my original thinking when we bought that. FortisBC is its biggest customer. And we do have a little bit of volatility around that asset on a quarterly basis as the analysts in the room know. So it's not significant to the company, but we need to eliminate that as well long term.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

And maybe just one follow-up as it relates to Aitken Creek, when we look at some of the transaction multiples that have happened in Western Canada on midstream assets, just what are your thoughts on those multiples relative to where Fortis Inc. is trading? Is that a way to resurface value?

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

Andrew, I've got to tell you, I haven't really focused on that multiple for that asset differential. I more think about sort of regulated infrastructure contracted energy infrastructure and the multiples that are being paid. Just recently, we all know that AltaGas' asset went for like 27x EBITDA, its regulated hydro in BC. So these are the -- when you're getting those kinds of multiples for energy infrastructure, you do have to look at your assets that you have.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

We'll take a question over here from Ben Pham.

Benjamin Pham - *BMO Capital Markets Equity Research - Analyst*

Ben Pham, BMO. Looks like your hydro assets are for sale just based on that last comment?

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

I didn't say that. But I'm just saying that if I'm sitting here and something is attracting when we're trading at 11x and there's assets that are being purchased in the market that are 27x EBITDA or 25x EBITDA, I think we should be fired, if we don't look at those kind of opportunities, frankly. So there is so much infrastructure, money, seeking out long-term contracted infrastructure in North America, they just cannot find enough homes for that capital. I think they should buy our stock. That would be the most best outcome, I think, especially given we trade at a significant discount to the typical U.S. utility, a lot of value in Fortis. But frankly, if that's not -- if we can't achieve that, then maybe we can achieve it in other ways.

Benjamin Pham - *BMO Capital Markets Equity Research - Analyst*

Okay. Well, my question is back on some queries about the balance sheet and at total debt of plus 11% you're expecting. Can you comment on if -- do you -- does Fortis -- do you think that's the right metric that you want to get to where U.S. names or 400 bps above that 15% at total debt. And if so, then does that mean that leverage, as it comes down, is probably where you want to get rather than giving you some flexibility to that on leverage in the back end of your program?

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

I'll take that. Jocelyn, you can add in whatever. When you look at our balance sheet, you'll look at the 2 agencies, right. S&P with BBB+ for our unsecured debt, A low for the corporate rating. So we're in very reasonable place. Our issue is Moody's, the Baa3 rating. I'm not happy with the Baa3 rating. We got it post ITC and obviously, we were disappointed in that outcome and then we had U.S. tax reform on top of that. I believe we were on the cusp of getting an upgrade from Moody's frankly before U.S. tax reform. And on the fact Moody's didn't do anything with the rating

with the impact of U.S. tax reform shows how much room we had in that Baa3 rating. So now that's going to take a little longer to get back up to Baa2, but that is our ultimate goal is to get back to the Baa2. I will say to you though we cannot destroy the growth profile of the company as we try to achieve that. It's got to be done in a balanced way over time and that's what this plan does as we see gradual improvement in our metrics. I'll point out that the agencies rate us as excellent business risk and strong business risk. In Moody's lingo, it's strong. That allows, I would say, somewhat more aggressive leverage targets for Fortis than is typical for the other businesses that you may have -- may be looking at.

Benjamin Pham - *BMO Capital Markets Equity Research - Analyst*

Okay. And my second question, disruptive technologies, you mentioned that earlier in the presentation and David was presenting a couple of years ago at the time of and the death spiral in the utilities and looks like no one is talking about today, at least to not that sort of magnitude. Can you comment what's changed really in the 2 years and how much time are you bearing and your team focused on looking at disruptive technologies in that 5-year program or 5-year CapEx plan you're looking at?

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

Yes, Ben, I think, where I'd start that off with is the difference is utilities are embracing this change now compared to probably 2, 3, 4 years ago. We saw it coming and we're more scared and caught probably flat-footed and not knowing how to integrate things like distributed resources, storage, not knowing the -- and understanding the economics of them, not understanding the cost curves of them, how fast they'd come down, et cetera. Now when you look at our integrated resource plan, we look at integrating all those types of resources, including down to the distributed level. So I think probably the big difference is it's not a death spiral. The usage doesn't matter anymore. It's all about your level of customer growth and the level of infrastructure that you'd need to invest to still give them that reliable power. So that's what I think has changed is just the entire industry's outlook in saying this is infrastructure, this is energy infrastructure, wait, that's our business. We should be the ones investing in it. So even when you get down to the level of individual customers, when you look at innovation on a going forward basis, the reason that we're putting in all the things like AMI, we're putting in all those control systems, we're putting in advanced distribution management system, we're putting all that stuff in, so that we can offer some of these products to our individual customers. We have to have that backbone of infrastructure and IT systems to be able to do that. So that's where I think you'll see it different, where we're going to be offering a lot more choices to our customers. We're not going to be on the innovative end of technology like getting into battery development or cells or system developments. This is all going to be about partnering with the technology company, bringing those products. We don't care who makes it, put our logo on it and we'll sell it and provide it to our customer.

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

And Ben, just in terms of time, we're spending a fair bit of time on this -- these risks, you could call them. The board obviously is very engaged with management on that. We're just -- we just had our annual strategy session with our board this past summer and that was many of the topics that we talked about. One thing we've done recently is we invested with Energy Impact Partners, which is a large fund that's been brought together in the U.S. to really almost examine all the emerging technologies in the energy sector. And we're so coinvesting with a bunch of other utilities in that fund. And Jim Laurito, who's our -- heads our Business Development is our key person involved with that. And what we do that is we take everything we're learning and we bring it back to our utility businesses. And so instead of having a big R&D group at Fortis, we're really piggybacking on all the things that are happening in that fund and the investments they're making. I'll tell you that we're learning a lot there and that's been helpful in terms of how we look at the business going forward.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

Looks like we have a couple more questions from the webcast participants.

Kealey Martin - *Fortis Inc. - Director of IR*

Yes, the next question from the webcast is, they note that you have said that you want to be more compared to a U.S. utility versus Canadian. If that's the case, from a valuation perspective, why do you keep providing financial guidance in Canadian terms, i.e. dividend and rate base growth versus earnings?

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

Great question. Because frankly, 70% of our shareholders are still Canadian shareholders. I think they value the dividend guidance. It's fairly easy to move from that to earnings guidance, I suppose. But given the diversity of our business to and the various rate cases over time that we're having in each of the different businesses, it's always hard to sort of be very specific in points of time about your earnings guidance. So I think, for us, as we look at the business in the terms of a long-term view, providing that comfort that we can continue to increase our dividend over time, while maintaining a pretty conservative payout ratio should provide enough comfort to The Street as to the direction that the company is going in.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

Any further questions, Kealey?

Kealey Martin - *Fortis Inc. - Director of IR*

Yes, certainly. So this one is specific to UNS and the $400 million for the Southline project, what gives you the confidence that this project will be moving forward?

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

What level of confidence, is that the question?

Kealey Martin - *Fortis Inc. - Director of IR*

Well, what gives you confidence, I guess, that is included?

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

The market. This is something that's needed. When you look at -- remember that graph that I put up and showed you all the issues that you have with solar if you get too much on your system, that's California already today. So there's times right now where California in the middle of a day is actually taking us and fellow Arizona utilities, they're giving us money to take their energy. So that's obviously an unsustainable position to be in. So when you look at that wind resource in New Mexico and that opposite complementary load shape, they're going to want some of that. And that's what we -- that's why we think that is going to happen. We're 250 megawatts of the 600 total, to get another 350 megawatts to take wind either in Arizona or we would prefer actually that it goes all the way to California because not only we get revenue from investment in that Southline project, we'll get investment -- or we'll get revenue from additional throughput on the rest of our system, which will end up lowering our overall transmission costs. So there's just -- it's close. We just have to put a couple of contracts together and fill that gap.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

Great. Looks like we have one more question here.

Winfried Fruehauf

What is the status of net metering in Arizona?

David G. Hutchens - *UNS Energy Corporation - CEO, President and Director*

So net metering has been replaced with what they call an RCP, which is, in essence, you're paying a fixed amount for over-generation when our customers put solar back on the grid as of about 2 or 3 weeks ago. Net metering will no longer apply. So every time you put a kilowatt hour out on, say, TEP's grid instead of being able to net that against your bill, what you'll do is you'll get a credit, which is in the mid-$0.09 per kilowatt hours. So it's not that much less than what you would get from a full retail credit, which is probably in the mid-$0.10 a kilowatt hour, but it is a step in that right direction.

Stephanie A. Amaimo - *Fortis Inc. - VP of IR*

Great. Are there any further questions this morning? Hearing none, this concludes our Toronto Investor Day. Thank you, everyone, for joining us. And for those in the room, lunch will be served outside. Thank you, everyone. Have a great day.