

## **February 9, 2024 – Q4 2023 and Annual Earnings Presentation Transcript FLI**

Fortis includes forward-looking information in this presentation within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (collectively referred to as "forward-looking information"). Forward-looking information reflects expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would, and the negative of these terms, and other similar terminology or expressions have been used to identify the forward-looking information, which includes, without limitation: the 2030 and 2035 GHG emissions reduction targets and how those targets are expected to be achieved; the 2050 net-zero GHG emissions goal; TEP's and UNS Electric's 2023 IRPs, including planned additions of renewable generation, energy storage and natural gas peaking units, and the related expected timing of ACC review and the impact of new natural gas capacity; the expected reduction of coal generation at TEP from 2028 through 2032 and the plan to exit coal-fired generation by 2032; the expected timing and issuance of the Corporation's second climate report; forecast capital expenditures for 2024-2028, including cleaner energy investments; forecast rate base and rate base growth for 2024 through 2028; FortisBC Energy's forecast rate base portion of the Eagle Mountain Woodfibre Gas Line project through 2027; the nature, timing, benefits and expected costs of additional opportunities beyond the Capital Plan, including investments related to tranche two of the MISO LRTP, TEP's and UNS Electric's IRPs, renewable fuel solutions and LNG infrastructure in British Columbia, and climate adaptation, grid resiliency and the clean energy transition; annual dividend growth guidance through 2028; the expectation of remaining opportunistic in monitoring the debt capital markets and considering interest rate hedges or prefunding opportunities; scheduled preferred share dividend rate resets and the expected impact in underlying yields on the rate resets; the expected sources of funding for the Capital Plan; the expected sources of common equity proceeds and the expected uses of proceeds from the ATM; the expectation of stability in the funding plan and the resulting average cash flow to debt metrics over the next five years; the intention to work with S&P with respect to the Corporation's physical risks and ongoing efforts to mitigate climate change; the expected timing, outcome and impact of legal and regulatory proceedings and decisions; the expectation that ITC will continue to aggressively pursue a "clean" state ROFR bill in Iowa; the expectation of a lighter regulatory year as compared to 2023; forecast rate base and rate base growth for 2024 through 2028 by business unit; forecast capital expenditures for 2024 through 2028 by business unit; the nature, timing, benefits and expected costs of certain capital projects, including ITC's transmission projects associated with the MISO LRTP, UNS Roadrunner Reserve Project, UNS Energy Vail-to-Tortolita Transmission Project, UNS IRP Related Resource Requirements, FortisBC Eagle Mountain Woodfibre Gas Line Project, FortisBC Tilbury LNG Storage Expansion, FortisBC AMI Project, FortisBC Tilbury 1B Project, FortisBC Okanagan Capacity Upgrade, Wataynikaneyap Transmission Power Project; FortisBC's plans to increase RNG supply by 2030; forecast debt maturities for 2024 through 2033; expectations regarding the timing, decision to use and potential use of proceeds related to the ATM program; the timing, content and outcome of discussions with credit rating agencies and expectation that current credit ratings will not materially impact costing; expectations regarding demand forecast revisions; expected impact of legal challenge of Chevron Doctrine; and expectations regarding new ROFR legislation in Iowa.

Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information including, without limitation: reasonable legal and regulatory decisions and the expectation of regulatory stability; the successful execution of the Capital Plan; no material capital project or financing cost overrun; sufficient human resources to deliver service and execute the Capital Plan; the realization of additional opportunities beyond the Capital Plan; no significant variability in interest rates; no material changes in the assumed U.S. dollar to Canadian dollar exchange rate; the Board exercising its discretion to declare dividends, taking into account the financial performance and condition of the Corporation; no significant operational disruptions or environmental liability or upset; the continued ability to maintain the performance of the electricity and gas systems; no severe and prolonged economic downturn; sufficient liquidity and capital resources; the ability to hedge exposures to fluctuations in foreign exchange rates, natural gas prices and electricity prices; the continued availability of natural gas, fuel, coal and electricity supply; continuation of power supply and capacity purchase contracts; no significant changes in government energy plans, environmental laws and regulations that could have a material negative impact; maintenance of adequate insurance coverage; the ability to obtain and maintain licences and permits; retention of existing service areas; no significant changes in tax laws and the continued tax deferred treatment of earnings from the Corporation's foreign operations; continued maintenance of information technology infrastructure and no material breach of cybersecurity; continued favourable relations with Indigenous Peoples; and favourable labour relations.

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

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## PRESENTATION

### Operator

Good morning, everyone. Thank you for standing by. My name is Lara, and I will be your conference operator today. Welcome to Fortis' Q4 2023 Earnings Conference Call and Webcast. (Operator Instructions). At this time, I would like to turn the conference over to Stephanie Amaimo. Please go ahead, Ms. Amaimo.

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

Thanks, Lara, and good morning, everyone. Welcome to Fortis' Fourth Quarter and Annual 2023 Results Conference Call. I'm joined by David Hutchens, President and CEO; Jocelyn Perry, Executive VP and CFO; other members of the senior management team as well as CEOs from certain subsidiaries. Before we begin today's call, I want to remind you that the discussion will include forward-looking information, which is subject to the cautionary statement contained in the supporting slide show. Actual results can differ materially from the forecast projections included in the forward-looking information presented today. All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our annual 2023 MD&A. Also, unless otherwise specified, all financial information referenced is in Canadian dollars. With that, I will turn the call over to David.

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

Thank you, and good morning, everyone. Today, we are pleased to report strong 2023 operational and financial results. During the year, we provided reliable service to our customers, invested \$4.3 billion of capital in our energy systems, concluded key regulatory applications, sold the non-regulated Aitken Creek natural gas storage facility and further reduced our carbon emissions. Adjusted EPS grew approximately 9%, excluding foreign exchange impacts with rate base growth and the regulatory outcomes in British Columbia and Arizona serving as key drivers.

And with our track record of executing our regulated growth strategy, we increased our fourth quarter dividend by 4.4%, marking 50 consecutive years of increases in dividends paid, a milestone of which we are very proud. Our utilities operate electric and natural gas transmission and distribution systems across North America. And we know that the safety and reliability of the service we provide is imperative to our customers and employees and is embedded in everything we do. In 2023, our metrics were top quartile for safety and reliability relative to our North American peer benchmarks. As we make the necessary investments in our utilities, we remain focused on managing customer bill impacts. While we have limited control of energy commodity costs and higher interest rates, both of which are passed through to our customers, we continue to manage operating costs through these innovation and process improvements. We also work with our customers to help them manage their bills through our energy efficiency and demand side management or DSM programs. Just last week, the British Columbia Utilities Commission awarded FortisBC's \$600 million DSM plan for 2024 through 2027. The plan continues cost-effective initiatives for customers to save on energy use while incorporating new programs to further align with the CleanBC road map to 2030. Customer affordability is critical as we execute our clean energy goals and invest in the resiliency of our energy systems.

We continue our track record of dependable shareholder returns despite a challenging year for the utility sector. In 2023, we delivered an annual total shareholder return that ranked in the top quartile of our utility peer group. Over a 20-year period, we have had an average annual return of approximately 11%, significantly higher than the returns generated by the benchmark indices.

Through 2023, we achieved a 33% reduction in Scope 1 emissions compared to 2019 levels. The closure of the coal-fired San Juan generating station in June 2022 as well as the start of seasonal operations of the Springerville units in 2023, contributed to the emissions reductions. With this continued progress, we are on track to achieve our targets to reduce Scope 1 greenhouse gas emissions 50% by 2030, 75% by 2035 and net-zero by 2050.

While all of our utilities play a part in reducing carbon emissions, the bulk of the reductions will be achieved through the execution of TEP's integrated resource plan. In November, both TEP and UNS Electric filed their 2023 IRPs with the Arizona Corporation Commission. TEP's IRP calls for the addition of over 2,200 megawatts of renewable generation, over 1,300 megawatts of energy storage and 400 megawatts of natural gas peaking units through 2038 and supports the closure of TEP's remaining 900 megawatts of coal-fired generation by 2032. This balanced portfolio supports the delivery of cleaner, reliable and affordable energy for our customers. The new natural gas capacity will accelerate renewable energy additions and will support TEP using less coal generation through 2032, further reducing cumulative Scope 1 emissions.

In December, TEP and UNS Electric issued a joint all-source request for proposals seeking new resources in support of the IRPs. The RFP calls for over 600 megawatts of renewables and energy efficiency resources and over 800 megawatts of firm capacity. As for the next steps on the IRPs, we expect a decision from the ACC in the fall. Looking ahead, we expect to release our climate report during the first quarter of 2024, showcasing the climate scenario work completed by our utilities over the past 2 years to ensure we are building climate resiliency into our operations.

In the third quarter, we announced our highly executable low-risk \$25 billion 5-year capital plan, our largest to date. In the fourth quarter, as part of the Iowa right of first refusal proceeding, a district court placed an injunction on MISO's long-range transmission projects in Iowa. As a result, ITC's tranche 1 projects located in Iowa are currently on hold. Jocelyn will speak to this in more detail on the regulatory update.

In late December, the BCUC denied FortisBC's application for the Okanagan capacity upgrade, our smallest major capital project estimated at approximately \$200 million. While the BCUC agreed with the need to address pipeline capacity shortfalls in the Okanagan region, they instructed FortisBC to investigate other options to meet capacity needs and submit a plan by the end of July. FortisBC's investment in the Eagle Mountain-Woodfibre gas line project is now forecasted at \$750 million through 2027 compared to \$420 million previously estimated. The increase was a result of amendments made to agreements with Woodfibre LNG and other partners that became effective following the completion of certain conditions, including the BCUC approval of an amended transportation rate schedule. This allows for an increase in our rate base without increasing customer rates.

Our 5-year capital plan of \$25 billion remains on track, supporting average annual rate base growth of approximately 6%. Our next 5-year plan is in progress, and we expect to release it in the fall. Beyond the plan, we continue to pursue additional opportunities. ITC continues to work with MISO on tranche 2 of the long-range transmission plan, and we expect MISO board approval in the second half of this year. In addition, we estimate

between USD 2.5 billion and USD 5 billion of incremental investments through 2038 at TEP and UNS Electric to support their IRPs. We also anticipate growth opportunities associated with renewable natural gas solutions and LNG infrastructure in British Columbia.

Across all other utilities, we expect additional growth opportunities to support climate adaptation, grid resiliency and the clean energy transition. As mentioned earlier, we increased our common share dividend in the fourth quarter by 4.4%, marking 50 consecutive years of increases in dividends paid. In 2023, we also extended our 4% to 6% annual dividend growth guidance through 2028, supported by our low-risk regulated growth profile. Now I will turn the call over to Jocelyn for an update on our fourth quarter and annual financial results.

**Jocelyn H. Perry** - Fortis Inc. - Executive VP & CFO

Thank you, David, and good morning, everyone. Before I get into the results, I want to point out that we are now reporting the former Energy Infrastructure segment, which included Aitken Creek and Fortis Belize within the Corporate and Other segment. With the sale of Aitken Creek in the fourth quarter, we will report Fortis Belize in this segment going forward. Reported earnings per common share for the fourth quarter of 2023 were \$0.78, \$0.01 higher than reported in the fourth quarter of the prior year. Adjusted EPS for the fourth quarter of 2023 was \$0.72, consistent with the fourth quarter of 2022. Results for the quarter were in line with expectations and reflect the timing of adjustments related to Aitken Creek.

As we stated on the last earnings call, Aitken Creek had an effective sale date of March 31, and with the transaction now closed as of November 1, we have excluded adjusted earnings of \$24 million or approximately \$0.05 per common share initially recorded in the second and third quarters of 2023. The remaining EPS decrease for the Corporate and Other segment reflects lower earnings at Aitken Creek driven by the timing of the disposition and higher margins recognized in the fourth quarter of 2022.

At our regulated utilities, the \$0.09 increase in EPS quarter-over-quarter was driven by rate base growth, higher retail revenue in Arizona associated with new customer rates at TEP and the new cost of capital parameters at FortisBC. As David mentioned, we delivered strong EPS growth in 2023. Reported EPS was \$3.10, \$0.32 higher than 2022. Adjusted EPS was \$3.09, reflecting 9% growth over 2022.

Our Western Canadian utilities contributed an \$0.18 EPS increase, \$0.10 of which related to the new cost of capital parameters approved by the BCUC in September 2023. Rate base growth also contributed to the increase. For our regulated U.S. and electric and gas utilities, almost half of the \$0.12 EPS increase was driven by new rates at TEP effective September 1. Higher retail sales associated with warmer weather and customer growth, an increase in the market value of certain investments that support retirement benefits and lower depreciation associated with the retirement of the San Juan Generating Station in 2022, also favorably impacted results.

Our largest utility ITC increased EPS by \$0.06, reflecting 6% year-over-year earnings growth, strong rate base growth and an increase in the market value of investments that support retirement benefits was tempered by higher non-recoverable finance costs. At our other electric segment rate base growth, higher sales and equity income from the Wataynikaneyap project contributed a \$0.02 increase in EPS. For the Corporate and Other segment, this decrease mainly reflects higher holding company finance costs as well as \$0.03 related to lower hydroelectric generation in Belize and lower earnings at Aitken Creek. For 2024, we do expect the sale of Aitken Creek to be neutral to EPS. And lastly, the favorable impact of a higher average U.S. to Canadian dollar foreign exchange rate was partially offset by higher weighted shares outstanding issued under our dividend reinvestment plan. All in all, a very strong growth year across our portfolio of regulated utilities.

Looking back, Fortis has delivered rate base growth of 6.5% and adjusted EPS growth of approximately 6% on average annually over the past 3 years. In 2023, we issued approximately \$3 billion of debt to refinance maturing debt and to fund our capital program. Our primary earnings exposure to elevated interest rates pertains to holding company debt as our regulated utilities ultimately recover changes in interest rates through regulatory mechanisms and periodic rebasing of customer rates. In the upcoming year, we have approximately USD 600 million of non-regulated debt coming due with the maturity at ITC Holdings largely prefunded in 2023. We also have \$250 million of preference shares with dividend rate resets in early 2024 and \$600 million in December 2024. We'll continue to monitor the debt capital markets and consider interest rate hedges and additional pre-funding opportunities.

With proceeds from our debt issuances and the sale of Aitken Creek as well as over \$4 billion available on our credit facilities, we remain in a strong liquidity position to execute our \$25 billion capital plan. As we outlined at Investor Day, the majority of our capital plan is expected to be funded

from cash from operations and debt issued at our regulated utilities. Equity funding is expected from our DRIP program with a \$500 million ATM program available for additional funding flexibility if required. To date, we have not raised any equity under the ATM program.

We achieved a Moody's cash flow to debt ratio of 11.6% and an S&P FFO to debt ratio of 11.4% in 2023, both coming in stronger than our forecast outlined at Investor Day. Our S&P metric was below our new threshold of 12%, which S&P raised from 10.5% in November. S&P also revised its outlook on our issuer rating to negative, citing rising physical risks due to climate change, including wildfires. We were surprised by S&P's report. We have a strong track record of managing climate risk, including wildfires and other climate events, and they have not had a significant impact on our operations and financial results to date. Fortis also benefits from constructive regulatory jurisdictions and legal environments. Over the next year, we will continue to engage with S&P on this matter. We do not expect to alter our funding plan, which remains on track to achieve average annual cash flow to debt metrics of approximately 12% over the next 5 years.

As David mentioned earlier, in December, the Iowa District Court ruled that the Iowa ROFR legislation was unconstitutional on procedural grounds. The District Court also granted a broad injunction on the ROFR legislation, preventing additional actions on the tranche 1 projects in Iowa that were previously awarded to ITC Midwest by MISO in July 2022. ITC has filed a motion for reconsideration with the District Court. While the timing and outcome of the proceeding remains unknown, ITC will continue to aggressively pursue the new ROFR bill in Iowa.

It's important to highlight that the District Court ruled on the manner in which the Iowa ROFR was passed and not on the merits of the ROFR. Further and importantly, MISO is the only entity charged with determining what projects are to be competitively bid pursuant to its tariff. Also, approximately 70% of the tranche 1 projects are upgrades to ITC Midwest facilities along existing rights way, which under MISO's tariff, grants ITC Midwest, the option to construct the upgrades regardless of the outcome of the ROFR legislation.

And furthermore, for any portion of the first tranche of the MISO LRTP projects to be competitively bid, we believe it would require a federal decision that significantly departs from existing rules under the MISO tariff. Last month, the ACC issued its decision on UNS Electric's general rate application, approving, among other things, a 9.75% allowed return on equity and a 54% common equity layer. The new rates became effective on February 1.

The ACC also approved a system reliability benefit or SRB mechanism. The SRB allows UNS Electric to recover generation investments between rate cases subject to an annual cap and earnings test. The SRB is expected to reduce volatility in customer rates and the frequency of future rate cases. With regards to our regulatory calendar for 2024, the general rate application at Central Hudson remains ongoing as the current 3-year plan ends on June 30. The New York Service Commission staff and intervener testimony was filed in November with staff recommending a 1-year rate increase, including a 9.2% allowed ROE and 48% equity thickness. This litigative proceeding remains on track.

At FortisBC, the current multiyear rate plan concludes at the end of 2024, and an application for the next plan is expected to be filed with the BCUC in the first half of 2024. In Alberta, the formulaic allowed ROE was set at 9.28% for 2024 and will be reset annually in the fourth quarter. Lastly, there are no new updates to report on the outstanding FERC MISO-based ROE or NOPR on transmission incentives at ITC. Overall, we expect a lighter regulatory year as compared to 2023. And with that, I'll now turn the call back to David.

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

We are pleased with our accomplishments in 2023, and we appreciate the contributions of every employee who helped to make last year a success. We recognize that it's no small task to keep each other safe, deliver reliable service to customers, invest over \$4 billion of capital, obtain key regulatory outcomes and deliver solid financial results. For 2024 and beyond, we are focused on executing our regulated growth strategy to ensure we continue our operational and financial track record for the benefit of our customers and shareholders. That concludes my remarks. I will now turn the call back over to Stephanie.

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

Thank you, David. This concludes the presentation. At this time, we'd like to open the call to address questions from the investment community.

## QUESTIONS AND ANSWERS

### Operator

We will now conduct the question-and-answer period. (Operator Instructions). One moment, please, for your first question. Our first question comes from the line of Maurice Choy from RBC Capital Markets.

### Maurice Choy - RBC Capital Markets, Research Division - MD & Analyst

I wanted to follow up on your comments on the funding plan, which you do mention that you do not expect to alter. Back at the Investor Day getting to 12% would have meant you had about 100 to 150 basis points of cushion versus your downgrade thresholds. That cushion has obviously effectively wiped out at S&P when it moves the goalpost. What are some of the puts and takes on keeping the 12% target? And any proactive actions you're considering to restore the cushion if the cushion is important to you?

### Jocelyn H. Perry - Fortis Inc. - Executive VP & CFO

Maurice, this is Jocelyn. Yes, it's a good question. Clearly, that was a big jump in the threshold to go from 10.5% to 12%. So you're right. We've eliminated the cushion, but we do have a plan that sees us getting to on average 12% over the 5 years and obviously, getting above that 12%. We're going to be laser focused on this, of course, and as we go through the year -- I mean, we're always looking at our cash flows. And we're also getting confirmations around certain tax rules. And we thought first that the minimum tax was going to impact us. Now it's not. So that gives us a little bit of a room to push our metrics forward. But we'll continue to push forward with our cash flows, refine them as we go out through the year. We do have the ATM available to us even though right now, I don't have any firm plans to use that ATM

### Maurice Choy - RBC Capital Markets, Research Division - MD & Analyst

Great. And just to follow up on that, as you look out through 2024, are there any events, items that we should look out for that might motivate you to want to restore the cushion?

### Jocelyn H. Perry - Fortis Inc. - Executive VP & CFO

I think, Maurice, I mean, we're going to continue to have conversations with S&P. Clearly, we want to set ourselves up to rebuild that cushion. But again, this was a surprise. We'll continue to have further conversations with S&P about the nature of their concerns around wildfire risk and climate risk and just understand the goalpost a little better. But the aim is to certainly meet the threshold and start building back that cushion. But I don't see any other event that other than speaking with S&P throughout the year, just trying to fully understand the nature of the negative outlook.

### Maurice Choy - RBC Capital Markets, Research Division - MD & Analyst

Got it. And my final question is on Arizona in terms of the potential repealing of the state's renewable energy standard and tariff. TEP, obviously, the revenue IRP that was filed, what does the repealing of the REST means in terms of TEP's decarbonization growth plans?

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

Yes, Maurice, this is Dave. Thanks for that question. It doesn't mean anything because we've already exceeded the renewable portfolio standard. It was only a 15% requirement, which we have surpassed already. Obviously, the cost recovery of historical items from that will continue to be -- continue to make sure that we get those through the normal regulatory processes. But overall, the goal isn't -- doesn't really have any impact on

us. If you'll remember, a couple of years ago, there was quite a lengthy debate as to whether or not Arizona was going to adopt some more aggressive goals even all the way to net zero goals, but that never did happen. The renewable portfolio standard is a bit out of date. I think there isn't probably any utility, at least any of the big ones that haven't already met the 2025 requirements.

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**Operator**

Our next question comes from the line of Rob Hope from Scotiabank.

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

I want to circle back on the Okanagan decision. So maybe looking forward, how do you work with the regulator, whether it's in BC or other jurisdictions, especially on the natural gas side, such that your views of demand growth line up with how the regulator is seeing the world so that, for example, you think you need to get this pipeline to meet demand, but they think that demand may not necessarily show up there. So how do you bridge that gap moving forward?

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

That's a great question, Rob. And we've got a couple of different jurisdictions that we see this in Arizona. We actually don't have this conversation, there really hasn't been a pushback on natural gas infrastructure or demand on a going-forward basis. I'm going to kick it over to Roger Dall'Antonia, the CEO of FortisBC, to talk a little bit about BC and then you can spring back and I can talk a little bit about New York as well.

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

Thanks, David. Thanks, Rob. Maybe I'll start a little bit with the OCU decision itself. -- disappointed, of course, that it was denied. We put quite a bit of work into that application. I think there's 3 things that come out of the decision that that's important to understand. The first is the commission does see the need for capacity upgrade. So they're not denying the basis for it. The second is they've -- while they've denied, they have directed us to come back with the mitigation plan. So they are expecting us provide some solution, which we will do. I think the third issue and really the heart of your question is what's changed that they're not accepting our load forecast? And I think when you look at their reasoning, it's really not so much that they don't think we have a role from the point of view of a commission regulating natural gas. It's more that with the policy direction that BC is going with CleanBC, significant uncertainty right now on how does BC meet some fairly aggressive emissions targets? What does that mean for solutions out of 50-60 years life, like the OCU pipeline upgrade relative to what the long-term forecast is versus the near-term capacity shortfall.

So it's -- for us, it's really incumbent that we demonstrate a variety of scenarios where we think the capacity issue may not be resolved over the long term. How do you do that? I think what we've always done in the past is looked at low growth with the contingency factor looking at on the upside, making sure that you're never short. I think what commissions are looking at when there's policy uncertainties is really going to be more around a variety of scenarios and what is the ability to scale up in your asset mix. So you're not building the largest program or the largest facility, but is there a way to mitigate with near-term solutions but also expand if load growth proves to be higher than they're expecting. So I think it's going to be a change in how we approach the load forecasting over the next number of applications and how we get some certainty around how CleanBC in our instance goes from policy into specific regulations. So more to come about for sure.

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

Thanks Roger. And Rob, it's important, I think, as we look out in the future that we are really looking at more incremental and many steps in a longer-term planning process, which may be an outcome of what FortisBC looks at with their regulator. It may be a stack of shorter and middle and longer-term investment opportunities instead of starting at the long term, which can be more expensive, obviously, as you -- if you're building incrementally and have that flexibility, it will cost you -- that optionality always costs you a little bit of money. But at the end, it might provide a bit



more flexibility for us to see the future a little bit clearer in the shorter-term periods of time. (inaudible) Oh I was going to talk back on the New York piece, so there is a New York legislation that's called the Affordable Gas Transition Act. It limits the amount of free footage or actually zeros out the free footage that's allowed for new gas customers. So it would increase the amount of contribution needed to get gas service, which would increase upfront cost for homes, et cetera.

We -- there are some other growth limitations in there as well. Obviously, we're looking at that. And I don't necessarily agree with that policy as well. But at the end of the day, when you look at our service territory, one, our gas service territory is pretty small. It's a small part of our overall business from a Fortis perspective, but also the gas and electricity customers are basically almost completely overlapped in Central Hudson's service. So it's actually a great way to look at it, similar to how Roger looked at the Kelowna situation where we serve electricity and natural gas. It's a great way for us to apply the right amount of electrification and natural gas and energy solutions to our customers when you can provide both sides of it. So one could be a growth opportunity, but the most important thing is to be managing the customer affordability on the pace of these transitions.

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

I appreciate that. And that actually leads to kind of the second of my questions. On the electric side, we've seen another number of system operators increase demand expectations across the continent for a variety of reasons. When we take a look at your service territories, where do you think you could see the greatest upward revision on a demand forecast moving forward and why?

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

Yes. I think there's probably a little of that in almost every service territory. I'll say the big ones are likely Arizona, just seeing the economic growth that's happening there, whether it's battery factories, data centers, semiconductor chip manufacturing -- that's statewide, but some of that's in our service territory and some of it will be coming to our service territory in the near future. So that's on the back of additional conversations on manufacturing increasing in the area. And of course, Arizona is always a net migration state as well where we end up with good to strong population growth typically decade after decade. The other one is in the Midwest. I think the manufacturing boom that I think we'll see and are seeing in our main jurisdiction there like Michigan will ultimately lead to additional infrastructure needs, additional transmission needs for us.

It's manufacturing, which obviously drives jobs, which drives houses and which drives the economy in general and some of the Inflation Reduction Act incentives for domestic content are really driving some of these manufacturing facilities. So it's good to be in that service territory. And that's really setting aside even the latest Michigan clean energy legislation that is increasing the pace at which they have to get to 100% clean energy, which is by 2040 now due to that legislation, which I think is missing in a fair number of forecasts. That's not on the demand side. That's on the supply side. But of course, that drives renewables, transmission and the rest of the things that we are really fond of.

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**Operator**

Our next question comes from the line of Linda Ezergailis from TD Cowen.

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**Linda Ezergailis** - TD Securities Equity Research - Research Analyst

I'm just wondering if you can help us understand just further to Maurice's question, given the lack of wiggle room in your financing and your debt metrics, might that tilt you towards kind of prefunding to kind of give you a little bit more -- not wiggle room, but to anticipate maybe some surprises and maybe might you be more inclined to opportunistically consider divestitures? And how might that manifest itself? I'm also wondering how you're approaching opportunistic acquisitions? Would you need to high-grade that -- or might that prompt using the ATM given some of the other moving parts?

**Jocelyn H. Perry** - Fortis Inc. - Executive VP & CFO

Linda, this is Jocelyn. I'll take the first part of that question. Yes. I mean we're always looking at prefunding opportunities if the market should open and timing of when we actually go into the market. But with respect to this particular rating, I wouldn't expect it to materially impact our costing if we had to go to market even with this negative outlook there. So -- but you're right. I mean we do look for opportunities to go to market. So I would say that's always on the docket for us. And with respect to the ATM, the ATM is there, and that's exactly why we put the ATM in place. It was to give us some financial flexibility for events, particularly around growth that is either unforeseen or timing of cash flows from our subs or whatever it may be. So as we go through the year -- that's why I say we're not firm on any plans to use the ATM. But the ATM is there. And so we'll continue to monitor it as we go through the year, and we'll firm up those plans as the year unfolds. I'll pass the asset divestiture question over to David.

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

Yes. Obviously, the focus that we have from a strategy perspective is executing that \$25 billion capital plan. Now of course, as fiduciaries, we're always looking for opportunities to add value for our shareholders. So it's on us to make sure that we're looking at opportunities. But as Jocelyn mentioned, that's -- we're not dependent on anything other than the funding plan that we've laid out pretty clearly in the Investor Day back in the fall.

**Linda Ezergailis** - TD Securities Equity Research - Research Analyst

And maybe just as a follow-up, a higher-level question. I don't know if this is for Linda or maybe someone more honed in on the regulatory situation. The Chevron Doctrine that's been in place for 40 years, approximately, and addresses an ability for an agent -- U.S. federal agencies' reasonable interpretation of any sort of ambiguous statute is being challenged. What sort of impact would the discarding or removal of the Chevron Doctrine potentially have on your business? And also beyond that decision, we do have a U.S. election coming this fall. So just wondering how you're thinking generally about FERC and any sort of other potential shifts in how your regulated businesses in the U.S. might have to adjust to any sort of new macro environment?

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

That's a great question, Linda. And it's -- it's interesting because the Chevron Doctrine has held precedents for deference to regulatory bodies for years and years and years and is an often cited precedent that obviously has been used by regulators to -- I'll say color in around those gray areas where legislation hasn't really determined who has the responsibility to be able to make those calls. This has probably been -- well it's obviously been -- conversation that's been going on for decades. But it is interesting to hear the conversation. I don't think in the long run, it changes anything from our perspective. I think what -- the main purpose of this conversation is to understand or determine whether or not regulatory agencies are over stepping what the -- I'll say, the bounds that are put on by legislation that isn't clear. So -- and frankly, recently, because it is so hard to get legislation done in the U.S., it is left up to the regulatory bodies to kind of reach in and there is a fine line between regulation and policy. So I don't see it having -- it's an interesting conversation. I don't see it really having any impact on what we see today. I just think it may make it maybe a little more difficult to legislate by regulation on a going-forward basis if it is challenged.

**Linda Ezergailis** - TD Securities Equity Research - Research Analyst

And any other comments beyond this particular Supreme Court challenge to any sort of shift maybe in kind of regulatory, like what's going on at FERC and where their priorities might be? Or any other commentary would be appreciated.

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

Yes. I think FERC, obviously, down to 3 commissioners is focused on a couple of things clearly. I think the planning and cost allocation NOPR has been discussed in depth as being sort of front line. It was great to see the interconnection queue final rule come out, and this is sort of the next

thing in the queue from a bigger, broader transmission policy perspective. Due to the benefits too of having that closer to the front of the queue is that part of that NOPR is asking the question about whether or not to reinstate the Federal right of first refusal for certain projects, which Order 1000 took away many years ago. So that's part of that conversation as well. So we like to see that move in and we hope it stays at the front of mind from a FERC perspective.

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**Operator**

We have our next question comes from the line of Mark Jarvi from CIBC.

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**Mark Thomas Jarvi** - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

Maybe Jocelyn, if you could clarify just the comments around the reconsideration of the ROFR legislation, Iowa? Did you say that there'd be a parallel process to push through legislation? Maybe just kind of give us an update on where you think that effort is right now in terms of -- rewriting the legislation in Iowa?

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

Yes, thanks for the question. It is a parallel path. Reconsideration was filed in December. And obviously, in a parallel path that we're trying to get new ROFR legislation through Iowa.

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**Mark Thomas Jarvi** - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

And David, any sort of rough time line on when you think that could be tabled and try to put to a vote?

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

Not -- I don't really have a good time line for that. We're obviously shooting for this legislative session, which is still new-ish. And so we're trying to get it as quick as we can and get it done and approved during this legislative session, which I think goes through April-ish time frame.

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**Mark Thomas Jarvi** - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

And all sense is at this point are that there is a political will to push that through and drive that forward at this point?

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

Yes. So far, we're seeing good reception and hoping to get that pushed through.

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**Mark Thomas Jarvi** - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

Okay. And then coming back to BC, what's -- with the year-end now done, just clarification on the equity injection with the equity thickness step up. Has that been determined? What is that amount that has to go in in 2024?

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**Jocelyn H. Perry** - Fortis Inc. - Executive VP & CFO

Yes, Mark, that's been determined. It was \$300 million.

**Mark Thomas Jarvi** - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

So that's a little bit less than you would have thought a couple of months ago. Is that right?

**Jocelyn H. Perry** - Fortis Inc. - Executive VP & CFO

Yes. It was about what we thought. It may have been a little bit lower.

**Mark Thomas Jarvi** - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

Okay. And then just if you think broadly around that question around the Okanagan pipeline in gas -- this transition around electrification, but obviously BC struggled with forest fires, wildfires, drought conditions, which has hampered their wholesale generation market there. So what conversation goes on around sort of reliability and cost stability that the gas assets offer versus some of the pressures that the electric network might have faced over the last couple of years?

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

Well, that depends on the jurisdiction. Obviously, in Arizona, we have natural gas now in our newest integrated resource plan for both Tucson Electric Power and UNS Electric, our 2 electric utilities there. There's -- Alberta is a whole different conversation as well, recognizing the need and looking and seeing a lot of additions of natural gas capacity from a generation standpoint coming on this year. And obviously, a lot of conversations in that jurisdiction as a distribution-only company. We're sort of a bit on the sidelines on that. But in British Columbia, you don't hear a whole lot of conversation around natural gas generation because they have so much hydro. So most of the conversation is like site C expansion around hydro and renewables at this point. I think it is incumbent on us as folks who operate in every one of our jurisdictions to make sure that we're getting out and having those conversations of getting that balanced portfolio that allows us to get to that cleaner energy future as fast as we can, but with the big asterisk around affordability and reliability. And I think we're having a lot more constructive discussions with government and regulators. And I think overall, we will see more, I think, positive and balanced discussions and outcomes due to that conversation.

**Operator**

Our next question comes from the line of Ben Pham from BMO.

**Benjamin Pham** - BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst

I was wondering if you can maybe add a bit more color on your comments on asset rationalization? What conditions or factors does a core asset move into a non-core asset?

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

So if I understand the question right, is what do we consider non-core assets? I mean all of our assets, I would say that we define as core is what our business is all about, and that's regulated utility assets. That's why Aitken Creek was an unregulated asset and that made sense to monetize for a variety of reasons, but one is to take that almost \$500 million in proceeds and use it to invest in the main thing, which is our regulated utility businesses. So from that perspective, we're 99 and change. I mean it almost rounds to 100% regulated assets. So we don't have -- we don't kind of define the things as non-core per se.

**Benjamin Pham** - BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst

Is your non-reg -- is that the only thing really left is that just the Belize hydro assets?

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

Yes, the Belize hydro assets are the only non-regulated assets that we have.

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**Operator**

We have our next question come from the line of David Quezada from Raymond James.

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**David Quezada** - Raymond James Ltd., Research Division - Director & Equity Research Analyst

Just one for me. I'm just curious, going back to the Iowa ROFR issue, I wondered if that proceeding or some of the decisions there affects or if you think it might affect or prompt challenges to the ROFR you have in other states? Just any commentary around how you see that potentially playing out in the other states?

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

Yes. I mean this -- there have been challenges in other states, some that we operate in, some that we have ROFRs and other states as well. You have to make sure that you define these ROFRs so that they meet those challenges like the one that we have in Minnesota has met that challenge. So that's obviously part of the conversation when you go to look at a new ROFR in Iowa is making sure that it's -- from a constitutionality perspective and from the principles of that, that it ends up being a good solid ROFR that we can -- we know that if challenged will still survive. But yes, those -- that's already happened. It's happened in Texas and other places as well. But we think and we strongly believe that these ROFRs are the absolute right way for us to develop transmission on a going-forward basis for a variety of reasons. But the big ones are affordability, reliability and getting clean energy on the grid as fast as we can and making sure that we don't sacrifice any one of those 3 things. And I'll say the sad part about having the injunction sitting there is it's negative to all 3 of those things. These are projects that improve affordability by interconnecting cheaper resources, delivering cleaner energy and/or are there for reliability. And having those delayed is a negative to the 3 absolute tenets of our utility sector. So we want to make sure that we have the ability to get those projects done and get them done fast and affordably for our customers.

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**Operator**

We have our next question coming from the line of Patrick Kenny from National Bank Financial.

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**Patrick Kenny** - National Bank Financial, Inc., Research Division - MD

Just on the Woodfibre project. I know it's still a relatively small investment, but just wondering if you could provide a bit more color on the key drivers of the increase in costs there? And then it looks like you're fully protected through regulatory approval for now, but just given the 3-year construction window, how should we be thinking about being protected from any further potential escalations in construction costs between now and then?

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

Yes, sure. These aren't escalations. These are really due to the ability of us to do more of a rate-based investment and for the Woodfibre parties to have less of a contribution in aided construction. So it shouldn't be a read-through that this was a project increase cost and/or scope. It's just that

we now have a bigger piece of that overall pipeline pie. Now Roger happened to have been up there at the Woodfibre site just the last couple of days. So you can opine on that as well. Roger?

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

Thanks, David. Patrick, Dave has it right. We have a long-term transportation service agreement with a specific rate schedule dedicated to Woodfibre. And there's the ability to manage the contribution of aided construction which will then change the toll structure over the 40 years. So this was by design as the project went into construction. We started construction on our pipeline late last year, Woodfibre site. They're on Wednesday -- they're into a site prep in construction. So as we finalize the transportation service schedule agreement with updated costs ahead of construction, we ended up adjusting the contribution in aid of construction, which now has us investing \$750 million directly in the project recovered by the transportation service agreement over the life of the project.

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

Patrick, I'd have to note that that might be the first time I've heard is \$750 million, not being that big of a project.

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**Patrick Kenny** - National Bank Financial, Inc., Research Division - MD

Good point, David. And then just back to S&P's report, I know you'll be having further discussions with them throughout the year, but any sense as to what incremental risk mitigation measures you might be needing to put in place here over and above what you're already doing just in order to relieve some of their concerns? And then I guess just given the relatively low precipitation out West this winter, if you can comment on any proactive activities you might be undertaking ahead of the next wild fire season?

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

Yes. So we have been involved and engaged in trying to find the best ways to mitigate -- well, climate impacts in general, but wild fires, in particular. And we've been doing that not only amongst our own utilities through our Fortis operating group and sharing the best practices and trying to understand additional technologies, practices, procedures, recovery, ways we can coordinate with emergency services when there is a fire, all of those things. And we also do that externally across the broader North American utility sector. There's a lot of good ideas. There's a laundry list of things that you can do to mitigate wildfire impacts. Those may or may not apply. Every single utility has a different jurisdiction, a different fire threat, et cetera. But it's incumbent on us to make sure that we're doing all the things necessary in our jurisdictions to mitigate it. Now we think we are now based on what we know today as we learn and know more as the sector grows their knowledge in this and learns and knows what works and what doesn't work. We'll look at implementing those. And we just have to match up the knowledge that we're gaining across the entire sector with the expectations of rating agencies to make sure that we've got this covered and that we're all talking on the same terms and have the same level of expectations of what that means. So I'll leave it at that.

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**Operator**

We have our next question coming from the line of Michael Sullivan from Wolfe Research.

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**Michael P. Sullivan** - Wolfe Research, LLC - VP of Equity Research

It is just a quick one back to the MISO tranche 2 process. I think you mentioned approvals in the second half of the year. Any sense of when we might see like a first look at initial project awards?

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

Yes. So the way that the process goes is I think that batch doesn't come out probably -- because right now, they're still doing all the modeling to figure out which are the right projects. I don't think we would get a good view on that -- into that level of project detail probably until summer some time.

**Michael P. Sullivan** - Wolfe Research, LLC - VP of Equity Research

And then just coming out of the UNS rate case and now that you got the SRB there, just how you think about how that translates over to TEP and the regulatory and renewables build-out strategy there?

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

Yes, that's a great question. So obviously, we didn't get the SRB in TEP's rate case and UNS Electric did. And obviously, every rate case is different and the size of these investments for the smaller UNS Electric is a bit different than the larger Tucson Electric Power portfolio. But we do see this as definitely as a positive. We don't necessarily need it now because we have a lot of our renewable and storage investments are towards the tail end of our 5-year plan, but it is something that we now see as a framework to be able to use for TEP when it files its next rate case. So nothing urgent to try to figure out something between now and that next rate case. And of course, we don't have a very rigid or defined rate case schedule. But we think we can manage, obviously, with the investment tax credits and production tax credits helping to fill in that regulatory lag that we can manage effectively and not have any changes in our plan or our integrated resource plan based on what we know today.

**Operator**

(Operator Instructions) We have our next question coming from the line of Tanner James from Bank of America.

**Tanner James** - Bank of America

Following on Michael's first question, how are -- or how could the Iowa transmission ROFR proceedings affect your strategy regarding MISO tranche 2 projects and further planning in the region? And then in the event tranche 1 projects could be affected, are there opportunities for contingent spend elsewhere, either at ITC or across the organization?

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

So what's the last part contingent what? I missed the last part of your question

**Tanner James** - Bank of America

Contingent spend elsewhere.

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

Okay. Yes. So it's obviously the whole -- our whole multipronged approach here is to get the injunction removed from those tranche 1 projects so that we can continue getting those projects developed. The parallel piece that I mentioned, there's actually 2 parallel pieces here. One is to get the Iowa ROFR, a new Iowa ROFR passed, which if we can do that, that would hopefully be in place before the tranche 2 projects are allocated. And the third one that I mentioned earlier, too, is the focus on looking to get some level of federal ROFR in the planning and cost allocation NOPR. So those are kind of the 3 things that we're looking at. Contingent spend-wise, we're always looking for additional investments, whether -- remember the MISO long-range transmission plan is a big piece of the planning process, but there's also the annual MTEP projects that get brought in there

as well. So -- and then there's additional things like the joint targeted interconnection queue investments that could provide an opportunity which are investments that go across some of the different -- that connect to different RTOs, et cetera. So all of those things, we're always looking for contingent spend for sure.

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**Operator**

Thank you. As there are no further questions, I would like to turn the call back to Ms. Amaimo.

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

Thank you, Lara. We have nothing further at this time. Thank you, everyone, for participating in our fourth quarter and annual 2023 results conference call. Please contact Investor Relations should you need anything further. Thank you for your time, and have a great day.

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**Operator**

Thank you, ma'am. Thank you for participating. This concludes today's conference call. You may disconnect.

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