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Unless otherwise specified, all financial information referenced is in Canadian dollars and references to rate base refers to mid-year rate base.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Dan, and I will be your conference operator today. Welcome to the Fortis Q1 2018 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.

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

Thanks, Dan, and good morning, everyone. And welcome to Fortis' first quarter results conference call. I am joined by Barry Perry, President and CEO, and Karl Smith, 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. All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our 2018 first quarter MD&A. Also, unless otherwise specified, all financial information referenced is in Canadian dollars.

With that, I will turn the call over to Barry.

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

Thank you, Stephanie, and good morning, everyone. Before starting on the quarterly results, we wanted to briefly comment on the recently announced retirement of Karl Smith, our Executive Vice President and Chief Financial Officer. After more than three decades with Fortis, Karl announced that he will be retiring on June 1.

Over the years, he has worn many hats at Fortis and worn them well, including President and CEO of both FortisAlberta and Newfoundland Power.

His operational utility experience, coupled with his financial acumen, provided Fortis with an incredible CFO over the last few years. Most notably, he successfully lead our financial team and met our capital market needs during a time when, in which, the company doubled in size, following our strategic push into the United States.

Karl, we are grateful for your dedication to Fortis, and wish you all the best in life and your retirement. Thank you.

Succeeding Karl, as Executive Vice President and Chief Financial Officer at Fortis Inc, will be Jocelyn Perry, effective June 1.

Joceyln is the current President and CEO of Newfoundland Power. Previous to her experience in Newfoundland Power, Jocelyn led the financial reporting team at Fortis Inc. She brings her enthusiasm, strong work ethic and close to 20 years of experience with the Fortis Group. Jocelyn, we're excited about your appointment and welcome your leadership to our executive table.

And for the record, Jocelyn and I are not related. Congratulations, Jocelyn.

Now let's start on Slide 4, with our first quarter results. We're off to a good start in 2018, with operational and financial performance aligned with our expectations during the first quarter. Reported net earnings of $323 million for the first quarter of 2018 increased nearly $30 million over the same period in 2017, largely due to a positive U.S. tax impact related to our intention to file a consolidated state tax return in 2018.

Adjusted earnings were slightly lower than the first quarter in 2017, but met our expectations. We are pleased with these results considering some of the headwinds, we experienced in the quarter.

We spent $685 million in capital, during the quarter, enhancing service for our customers in a safe, reliable and affordable manner. And we remain on track to invest $3.2 billion in total at our utility businesses in 2018.

Since our last earnings call in February, we made progress on several fronts. In March, we reached a significant milestone in the Wataynikaneyap Power project, with a funding framework announced with the governments of Canada and Ontario, highlighting our dedication to advancing incremental growth opportunities. On the regulatory front, Central Hudson filed a joint proposal agreement with multiple stakeholders and interveners, in April, outlining a 3-year rate plan for the period July 2018 to June 2021, underscoring Fortis' commitment to constructive customer and regulatory relationships. Karl will speak to this in more detail in his remarks.

And operationally, the Turks and Caicos Islands are quickly returning to normal following the impacts of hurricane Irma this past fall.

Thanks to the strong execution of our emergency response team, throughout North America, electricity was restored to customers in less than 60 days. We expect to recover most of the revenue loss later this year.

Overall, the accomplishments of our utilities during the quarter reinforces the strength of Fortis as a North American utility leader and positions us well for the remainder of the year.

We included the Wataynikaneyap Power project in our 5-year capital plan following the announced funding framework in March. The project increased our capital plan by approximately $600 million, reflecting our share of the expected capital investment to 2022, increasing the 5-year capital plan for $14.5 billion to $15.1 billion. The capital program is expected to improve and automate the electric grid, address natural gas system capacity and gas line network integrity, increase cyber protection and allow the grid to deliver cleaner energy.

With our capital program consisting of a diverse mix of highly executable low-risk projects, we are positioned to deliver superior risk-adjusted returns. They're only 8 projects included, that each have a total project cost of $150 million or greater, with the balance of the capital being spent on small projects.

By 2022, we expect rate base to grow to approximately $33 billion, resulting in a compound annual growth rate of 5.4% for 2017 to 2022. The 3-year compound annual growth rate through 2020, is now expected to be 6.2%.

As I mentioned, we successfully advanced the Wataynikaneyap Power project, during the quarter, with the announcement of the funding framework. The announcement is the culmination of years of important discussions among area Chiefs. As a reminder, this project will connect 17 remote First Nation communities in North Western Ontario to the main electricity grid, through construction of 1,800 kilometers of transmission lines. The project has an estimated total cost of $1.6 billion and is expected to be completed in phases. The initial phase connecting the Pikangikum, First Nation to Ontario's power grid, is fully funded by the government of Canada and is expected to be completed by the end of 2018.

The next 2 phases are targeted to be completed by -- at the end of 2020 and 2023.

Remaining milestones include obtaining a lead to construct, which is expected to be received in early 2019 from the OEB, and finalization of environmental approvals and receipt of permits.

We're proud to be involved in this signature project, as it supports First Nation communities by providing access to cleaner, reliable power as they move away from costly diesel generation.

We also focused on growing our utility business and continue to track other development opportunities within and around our existing portfolio of businesses. The Lake Erie Connector project at ITC continues to be a focus, the project is fully permitted in both the United States and Canada, and will improve the security and reliability of both energy grids. In addition, ITC is exploring storage opportunities based on the needs in Southwestern United States. As a result, ITC will incur incremental business development costs to support this initiative over the next year or so.

In British Columbia, we continue to pursue additional LNG infrastructure investment opportunities, including expansion of the Tilbury LNG facility. In March, FortisBC shipped 20 LNG containers to China, this country's demand for LNG is growing as they ramp-up efforts to improve air quality and are turning to natural gas as a reliable alternative to coal and wood. This is positive news and more LNG shipments are planned in 2018.

We currently have approval from our BC regulator to invest an additional $400 million at the Tilbury facility. We'll move forward with the project, pending further demand for LNG from Tilbury. We're also supporting construction of a jetty or pier that will allow LNG from Tilbury to be delivered by vessel, which will help support the demand for future expansion, subject to permitting and other approvals. This will help the marine industry and local fleets switch from bunkering fuel to LNG and allow for the shipment of LNG to other countries.

Opportunities for growth don't stop there, in fact, we are very confident in our ability to grow our portfolio of utility businesses. We're working on our 5-year capital plan with the intent of providing you with a meaningful update this fall.

Key areas of focus for us include incremental transmission and renewable energy investments, energy storage projects and grid modernization across our utility.

We are confident, our capital plan and associated rate-based growth supports our 6% average annual dividend growth target through 2022. We have increased our dividend for 44 consecutive years, and have one of the longest records for a public company in Canada. This is a record we are proud of and expect to continue.

I'll now turn the call over to Karl, for his last update on our first quarter 2018 results.

Karl W. Smith - *Fortis Inc. - EVP & CFO*

Thanks, Barry. Good morning, everybody. Adjusted earnings for the quarter were $293 million compared to $287 million for the same quarter last year. Adjusted earnings per share were $0.69 for the quarter, down $0.02 compared to the same quarter last year. Cash flow from operations of approximately $600 million in the first quarter, represents a 9% increase compared to the first quarter in 2017. The increase reflects the fact that ITC made a large payment, in the first quarter in last year related to the initial MISO-based ROE complaint.

As noted on the previous slide, adjusted earnings per share decreased by $0.02 compared to the first quarter of 2017. And there were a number of puts and takes affecting comparative earnings per share.

UNS has strong performance this quarter, improving our earnings per share by $0.04, largely due to the impact of a full first quarter of new rates at Tucson Electric Power in 2018. The Corporate and Other segment contributed a $0.01 increase in the quarter compared to the prior period. The decrease in corporate cost was a result of lower finance charges, related to lower credit facility borrowings and favorable foreign exchange and U.S. dollar domiciled interest expense.

Income tax recovery was comparable to the prior period. The negative impact of U.S. tax reform related to a lower tax yield for holding company interest expense, was offset by timing differences associated with the application of a lower annual consolidated effective tax rate.

Despite better operating performance in our energy infrastructure segment, mark-to-market accounting for natural gas hedges at Aitken Creek negatively impacted our first quarter results.

During the first quarter, there were $4 million of unrealized losses compared to unrealized gains of $6 million for the same period in 2017.

As a reminder, these mark-to-market accounting adjustments should be earnings neutral over the long term, however, there may be variability on a quarterly basis.

Earnings variances at our other regulated utilities netted to a $0.01 decrease in earnings per share quarter-over-quarter. This was primarily driven by change in the timing of energy supply cost at Newfoundland Power and lower electricity sales at Fortis Turks and Caicos, as a result of Hurricane Irma.

As Barry mentioned, the Turks and Caicos Islands are quickly recovering following the hurricane, however, revenue was lower than normal during the quarter. We expect to recoup most of the lost revenue through our business interruption insurance and anticipate settling the claim later this year.

Changes in foreign exchange rates resulted in a $0.02 decrease in the first quarter earnings per share compared to the same period in 2017. The average U.S. dollar to Canadian dollar foreign exchange rate was a $1.26 this quarter compared to $1.32 in the first quarter last year.

As a reminder, earnings are not significantly affected by U.S. dollar to Canadian dollar foreign exchange fluctuations. Our annual earnings per share exposure is approximately $0.06 for every corresponding $0.05 change in foreign exchange. Strong uptake in our dividend reinvestment plan, coupled with the $500 million common equity private placement in March 2017, lowered adjusted earnings per share by $0.03 compared to the same period of 2017.

We want to take a few moments today to provide an update on U.S. tax reform impacts. During the quarter, progress was made at our U.S. regulated utilities and working with the respective regulators to return their net savings to customers due to the reduction in the federal corporate income tax rate.

At Tucson Electric Power, an application was filed with the Arizona Corporation Commission, or ACC, to return savings to customers through a combination of customer built credits and the establishment of a regulatory liability account to be credited in the next rate case. The application was just approved by the ACC last week.

At ITC, the current MISO 2018 formula rates, reflect an 8% to 10% reduction, following U.S. tax reform. While MISO rates were reposted in April, they are retroactive to January 1, 2018. ITC is also working to repost its 2018 rate in SPP to reflect the reduced tax rate.

Central Hudson filed a joint proposal with its regulator in April, proposing a 3-year rate plan for electric and gas delivery service commencing July 1, 2018. Included in the agreement is a recommendation to have rates reflect the effects of lower income tax expense, resulting from U.S. tax reform.

Turning now to interest deductibility. On April 2, the U.S. Treasury confirmed application of interest deductibility on a consolidated purpose -- sorry, consolidated basis for the purpose of calculating the 30% EBITDA cap under tax reform legislation. This is a positive development. In addition, EEI continues to lead efforts to clarify with the U.S. Treasury, the utility exemption with respect to the limitation on interest deductibility. We remain confident that this exemption applies to the U.S. Holding Company interest.

As noted, in our annual 2017 earnings call, the lower corporate tax rate reduces the recovery and collection of tax expense from our U.S. customers. Which has the effect of reducing near-term cash from operations at Fortis. During the first quarter, we held meetings with our credit rating agencies to review our revised credit metrics. While U.S. tax reform reduces our FFO to debt credit metrics, the impact is temporary. We found these means very constructive, there have been a number of releases today.

S&P has affirmed our A (low) rating and assigned a negative outlook. Moody's recently released a credit opinion with no change in our credit ratings or outlook.

Overall, we continue to expect annual earnings per share to be negatively impacted by approximately 3%, as a result of U.S. tax reform.

It's during times like these that the strength of our low-risk diversified portfolio of utilities stands out in supporting our investment grade credit ratings.

From a liquidity perspective, our consolidated credit facilities totaled approximately $5 billion. At the end of March 2018 there was $3.9 billion of unused capacity, including approximately $1.1 billion of unused capacity under our committed corporate credit facility.

In March, we filed a $500 million at-the-market, or ATM, common equity program for 2018. To date, we have not utilized the ATM program, however, it is available to support incremental growth opportunities if required.

On the regulatory front, we continue to enjoy a period of relative stability. For 2018, there are a couple of regulatory items. At ITC, we awaited a decision from FERC on the second MISO ROE complaint. Further, on April 20, a third party complaint was filed at FERC, challenging ITC's independent incentive adders included in transmission rates for ITC's operating subsidiaries in the MISO region. The adders were approved by FERC to incent companies that focus on owning, operating and investing in electric transmission.

ITC is a pure play transmission company. As a result, ITC is restricted from operating, owning or investing in generation or distribution assets. ITC will contest this complaint, and we will provide updates as they become available.

In April, Central Hudson filed a joint proposal outlining a 3-year rate settlement agreement that seeks to establish new rates effective July 1, 2018. The proposed settlement represents a balanced outcome for customers and all stakeholders. It includes rate support for approximately $625 million of capital, which equates to approximately 8.5% annual growth in rate base over the 3-year period. In addition, the proposal includes and allowed return on shareholders equity of 8.8% and a common equity ratio of 48% in rate year 1, 49% in rate year 2, and 50% in the third rate year. An order from the New York Public Service Commission is currently expected in June 2018, with new rates effective as of July 1, 2018.

I'll now turn the call back to Barry.

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

Thank you, Karl. Overall, we're off to a good start in 2018. Looking ahead, we are very confident in our ability to execute our strategy of delivering 6% average annual dividend growth to 2022. With the goal amount of providing sustainable growth to the benefit of our customers and shareholders over the long term.

I'll turn the call back to Stephanie.

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

Thank you, Barry. 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

(Operator Instructions) Our first question comes from the line of Robert Kwan with RBC Capital Markets.

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

If I can maybe start just on the funding side on your rating agency discussions. Can you just talk about what you put in front of them on the equity side, obviously, you got the drip on. You just talked about how you might or might not be using the ATM as part of showing up that cash flow? And then -- and if there's any comments around discrete equity?

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

Just a comment before Karl weighs in, Robert. Clearly, we said, when we launched the ATM program, that it was there to support incremental growth opportunities and depending on the outcome of our discussions with the rating agencies could provide flexibility to support any issues there. But we've come through this process with our rating agencies in a reasonable place. So really that ATM program is available now to support incremental growth opportunities.

Karl W. Smith - *Fortis Inc. - EVP & CFO*

And Robert, just to add to that briefly. In terms of equity, similar to our presentation around Investor Day last year and our ongoing conversations with the investment community around the capital program and so on. The only equity that's included, and this would have been part of the conversation with the rating agencies, was the ongoing contributions from the Dividend Reinvestment Plan. We don't have any anticipated needs currently for discrete equity to fund that plan. So back to Barry's comment, the only contemplation for additional discrete equity would be to fund any additional growth projects.

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

Perfect. So just to be completely clear, although the ATM has that potential flexibility around tax reform, if everything kind of plays out the way you think it will and what you've put in front of the rating agency is, the ATM really should be thought about completely to fund any new growth that pops up?

Karl W. Smith - *Fortis Inc. - EVP & CFO*

That's correct.

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

Perfect. And then just trying to understand the 5-year CapEx plan that you're working on, obviously without getting too granular or given you roll it out in the fall. Just wondering, is the initial cut looking like it's really just filling out the out years like you've always done? Are you seeing some opportunities for something, call in the next couple of years that can really lift the front-end growth rate as well?

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

I think it's mostly in those other years, Robert. But there are some things in the early years as well that we're focused on. Clearly, we're still a bit early on this. Our businesses are all bringing together their business plans over the summer, and that sort of culminates in the Fortis Inc. sort of consolidated plan in the fall, before our Investor Day. So it's a little early, but we are seeing some opportunities as well in the front-end and filling in those other years.

Operator

Your next question comes from the line of Rob Hope with Scotiabank.

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

Maybe just the first question on the ITC adder complaint. Just hoping you could flush out some of your additional point on your defense? And why you believe the independence adder is still valid as well as the possible timeline for resolution there?

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

So Robert, I am not going to argue our case on the call here, but I will allow Linda to give a brief, sort of, overview our -- I know, we did a bit of a public response on Friday. Linda, do you want to just chip in?

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

Sure, absolutely, thanks, Barry. Yes, as Barry indicated, obviously, we are going to vigorously contest the allegations in the complaint. I would just, sort of, remind everyone that, obviously, I mean, ITC is a standalone independent electric transmission company, and that certainly did not change as a result of the acquisition by Fortis and GIC. What I would remind everyone is, even if there were to be a conclusion, which obviously, we will evidently oppose contest that we were no longer independent. I think it's important to remember, that if FERC was to move away from this past policy and precedent and make such a change, we would expect to be treated no worse than any other standalone transmission company, such as NextEra, that recently received a decision from FERC, approximately a month ago, that granted them an additional 50 basis points for having a Transco in New York. So I think it is important to remember that there are other incentives available, and I think that would essentially mitigate. But more importantly, we are a independent standalone transmission company and we will vigorously contest the allegations in the complaint, as we believe they take a step well beyond past precedent and how FERC has defined market participant status.

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

Moving over to UNS. So there is a very strong quarter there. Going back to your 2017 Investor Day, you had that chart that kind of had outlined illustrative earnings for UNS with 2018 being flat to down given the historical test nature -- test year nature of the rates there. Is that still the case given the strength in Q1 as well as the fact that rates were not effective until late February 2017?

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

So Rob, I'll chip in and Mr. Hutchens is here as well, who can say a few words about this. But we will recall one of the things within historical test year that, the only real good time is when the economy is really improving, and we are seeing a tick-up in economic activity in Tucson. So we're getting more confident that, that business will perform better than we had anticipated, this time last year, frankly. So David, maybe you can chip in?

David G. Hutchens - *Fortis Inc. - EVP, Western Utility Operations*

Yes, I would agree with that, Barry, obviously, on a year-over-year basis. And the quarter, Rob is really just due to that 2 extra months of additional rate impact for TEP. So that was slightly offset by increased DNA, but that's the main story for Q1 year-over-year.

Operator

Your next question will come from the line of Linda Ezergailis with TD Securities.

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

With respect to U.S. tax reform. Now that you're filing consolidated return. Can you give us an update on how we might think of the effects of U.S. tax reform on your cash flows? I know you're collecting less taxes, you were eliminating bonus depreciation. And I'm also wondering how you're thinking about how long we would amortize your deferred tax liability, as an example? And if there's any other effects which should be mindful of?

Karl W. Smith - *Fortis Inc. - EVP & CFO*

That's a pretty broad question, Linda. So I'm going to get up to the highest level I possibly can. I mean, the way we talk about the impact of U.S. tax reform and the 3% aggregation to earnings per share still stands in terms of earnings. Cash flow, I don't think we ever provided any specific numbers, but the impact is fairly significant. That's why we wanted to point out that the anomaly in the first quarter compared to the first quarter last year, first quarter last year having that payment related to the first decision on the MISO ROE complaint. So going forward, as it's become more evident and more clear as to what the impact on cash flows would be. And in terms of the amortization, I mean, most of the deferred liability that was created is really tied into the plant assets. So pick an average life for a plant asset is very, very long 20, 30 years, somewhere in that range, Linda.

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

Yes, I would say to, Linda. You should take comfort, and we went through a pretty detailed process with the rating agencies in the first quarter to review all of this and frankly, came through it well. And I think it points to the strength of the overall regulated business of Fortis with the capital that we're putting in the ground, that $3 billion a year essentially of regulated capital. We quickly recover from the degradation on cash flow that was put in place because of U.S. tax reform. So I'm very pleased with the outcome of those processes. I know, as we travel around talking to our largest shareholders in the first quarter, that was a concern about what the rating agencies would do and we'd come through that in a very good fashion at this point.

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

Okay. And maybe, just, if you give us a sense of how the rating agencies think about your foreign exchange exposure it was a bit of a headwind in Q1? And I know that at times it could be a tailwind? But now with a significant portion of your business in the U.S., at what point would you consider converting your reporting currency to U.S. dollars? And what would be the factors in considering that?

Karl W. Smith - *Fortis Inc. - EVP & CFO*

That's 2 very different questions, Linda. So the first one, it doesn't really come up in a material way in our conversations with the rating agencies. Because as you know, the earnings impact is not that sensitive to fluctuations in the exchange rate. And the second part of the question, yes, that comes up, I wouldn't say often, but that does come up from time to time with discussions we have with our investors and so on. It's a big strategic question and one that we'll definitely not rush into. We don't feel any pressure currently to do that. Remember that, most of our shareholder base is still Canadian. Overall, only about 25% of our investor base and shareholder base is U.S., although, it's going. And until we get to a more significant number in that, I don't think we'll be turning our attention to that issue.

Operator

Your next question comes from the line of Robert Catellier with CIBC Capital Markets.

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

Just a follow-up on ITC. Can you tell us how much is in dispute in terms of the earnings under the complaint and the expected timeline for resolution?

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

Linda, I know that the complainers have identify certain amounts. I think in the complaint, if I'm not correct. Am I correct on that?

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

They have. However, they obviously identified sort of the entire value of, sort of, all of the incentive adders, which is really not a question in the complaint. I would just, sort of, remind everyone that, obviously, in ITC Midwest, we are authorized to collect 50 basis points for the independence adder there, and the 2 Michigan operating companies, while we're authorized to collect up to a 100 basis points, we're only collecting 53 basis points. Because we are capped at the high-end of the zone of reasonableness under, sort of, the recent MISO complaint number 1 decision last year. And so really, as you think about it and sort of leveraging off of my prior comment, really. FERC, obviously, has a history of granting other types of incentives, which clearly, we feel we would be eligible for in the event that FERC sort of granted the complaints -- the complainants' request. But as I mentioned, we still are fundamentally a standalone independent transmission company and have no, obviously, affiliation with market participants within our MISO region. And so we still feel very confident that FERC will continue to, sort of, view the complaint based on their past precedent.

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

And Rob, just a little metric for you, every 10 basis points of ROE at ITC works out to about a $0.01 a share for Fortis.

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

Okay, that's helpful quantification. Just -- so I'm hoping you could elaborate on the Southwestern storage opportunity. Maybe you could speak specifically to the potential investment over a 3 to 5 horizon? And also how much you might be investing in development cost in 2018, 2019?

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

So this is a fairly big project that we're thinking about. It's a pump storage project in Arizona, that region obviously, very big focus on increasing the amount of renewable power, especially, solar that comes on to the grid in that Southwest area, and this project would really facilitate a lot more renewable energy to come on to the grid. And -- so it's early days, we have allocated about $10 million this year at ITC to explore that project, to move it along frankly. I will tell you that the project to go forward will have to be done with partners. We clearly have our own business in Arizona, Tucson Electric Power especially, that would be a likely participant in that project. There will need to be other utility businesses in the region as well. But you do need to bring a project a certain distance before you can really have fruitful discussions with these parties. So I think it's about 2,000-megawatts project, and we're at -- we're refining some of the estimates at this point, I wouldn't give a number at this point.

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

Right, but in any event 2,000-megawatts is the significant investment, just given the nature of the project?

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

Yes, for sure. And -- it just aligns with a lot of the things that are going on. In -- especially in Arizona, we do have one of the -- one of the commissioners who very highly supportive. David, I don't know if you want to comment because you've obviously living and breathing the Arizona situation.

David G. Hutchens - *Fortis Inc. - EVP, Western Utility Operations*

Yes, so we've received quite a bit of support from particular commissioners and the commission in general related to this storage, because it is such a big deal to be able to integrate more renewables into the Arizona grid. So we're getting some pretty good traction and some pretty good publicity around it already.

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

Linda, I know, ITC is leading this project. So Linda, maybe you can offer some of your thoughts as well.

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

No, I think -- like you indicated, Barry, I mean, obviously, we are very excited, very encouraged about the project. Certainly, we've gone through some initial prefeasibility studies. Now we move into the actual feasibility study, that obviously is required for us to continue to advance the project. I would say our dialogue not just with, sort of, the policymakers is constructive, but certainly, our dialogue with other potential parties whether they be potential parties that we would contract with or equity partners is all constructive and positive and would just indicate an highlight. I think we are feeling confident about the traction that we'd being getting so far. And really is reflective of solution that addresses a fundamental problem in the Southwest. And again, sort of really trying to address that. Sort of, if you will, that California duck curve problem, and this is really a solution as well as provides other benefits to the Southwest. So we are very encouraged and excited about continuing to push this project.

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

Yes, sometimes, we get questions about how does Fortis actually work, what are substantially autonomous business units, and this is a great example of how it actually works. We have ITC with their expertise in transmission. We have Fortis with expertise in hydroelectric generation, and David Hutchens and his team in Arizona with the on-the-ground regulatory experience, experience with renewable power all coming together now to put forward a very exciting opportunity in Arizona. So really -- hopefully, we can move this one along, as I said, we have to spend a little money here to see if it's a viable opportunity and that's what we are intending to do.

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

Okay. And if I could just ask one quick follow-up here. You did mention the California duck curve, which is obviously an important issue for the industry. But California is bit of a fickle jurisdiction at times. So does the project really -- you're just doing feasibility study, so it might be early to really address this? But does the project rely on California? Or it kind of be -- can you move forward just with Arizona or other jurisdictions?

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

It would be nice to have participants from California. I'm not sure it's the only scenario though. And it's a little early to say that, so I would say that overall we'd like to have participants from the entire region, frankly. But it's not necessary, I don't think -- under certain circumstances just that it would not go forward if there were no Californian participants.

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

Okay, that's helpful. And just want to congratulate Karl on his retirement.

Karl W. Smith - *Fortis Inc. - EVP & CFO*

Thanks, Rob.

Operator

(Operator Instructions) Your next question comes from the line of Christopher Turnure with JP Morgan.

Christopher Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

I wanted to get a sense as to the full -- let's say 2019 run rate of the cash flow short fall from tax reform alone. Now that you have color on the ITC footprint, the New York footprint and the Arizona footprint from regulators?

Karl W. Smith - *Fortis Inc. - EVP & CFO*

Chris, we haven't disclosed that number specifically and I don't plan on doing it here today. But what I will say, as I mentioned earlier, once the -- once we get into our second quarter results, I think it would be much clearer. Our results should give you a better indication of what you can model going forward.

Christopher Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then to follow-up on an earlier question on equity needs. Can you give us a sense as to how much total equity would be required through the end of next year to meet your objectives, either S&P or yesterday's comment from Moody's that you need to get to 11% FFO to debt by next year to avoid, I guess, going back on watch?

Karl W. Smith - *Fortis Inc. - EVP & CFO*

I'll answer it this way, Chris. Our equity needs haven't changed as a consequence of our discussions with the rating agencies around U.S. tax reform. So the information that we provided around equity, supporting the capital program, is consistent with the numbers we used last fall which equates to about $250 million a year raised through the Dividend Reinvestment program.

Christopher Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

So that's all we can expect $250 million...

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

DRIP this year, and just the DRIP next year.

Christopher Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. So $250 million in '18, $250 million in '19, excluding any future CapEx growth opportunities that are not in your plan right now? That's the entirety of the equity we should expect?

Karl W. Smith - *Fortis Inc. - EVP & CFO*

Yes.

Operator

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

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

Just a question about power politics in Ontario. And obviously, you managed to bedded down the Wataay project and you've got some small LDC exposure here. Your presentation again highlights municipal utility consolidation. Just how do you think about this market -- the Ontario market for capital allocation, given really what's happening in the run-up to the election in June?

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

We play a long game, Andrew. We'd like to expand our business in Ontario, obviously, as there's election underway there, and there's a lot of discussion about of the sector involved with that. But we've been in Ontario for a long time. We've always did reasonably well in the province. We have strong support from the province currently for the Wataay project. So I think longer term, we do believe there will still be opportunities to do some streamlining of the sector there. But we'll have to watch out for that. So it's really -- elections happen every 4 years, you go through these things and -- but we think longer than that. So...

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

Okay, helpful. And then, just, maybe shifting geographies, a question really for David, on Navajo. Is there any color you can give on the process -- the sales process at Navajo? Obviously, TEP is a small owner of the facility. And then how do you think about power availability and costs for your customers in Arizona, if Navajo goes off the grid?

David G. Hutchens - *Fortis Inc. - EVP, Western Utility Operations*

So yes, Andrew, so Navajo's fate doesn't change from 2019, but we currently think it's going to shut down. As far as replacement power, we already have the Gila plant that we're in process of purchasing. And that will be the replacement power in Arizona, and we don't see that really affecting the market much.

Operator

As there are no further questions, I would like to turn the call back to Mr. Perry for any closing remarks.

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

To conclude, we are off to a good start this year, and we are focused on updating our capital numbers, which will come forward later in the fall. We're optimistic that our capital program will support our dividend guidance that we provided out to 2022, which is, that's 6% average annual increase in our dividends. Thank you very much.

Operator

Thank you for participating. Ladies and gentleman, this concludes today's conference. You may now disconnect.