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PRESENTATION

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

All right. Good morning, everyone. Thank you again for joining us here at the JPMorgan Energy Conference. My name is Chris Turnure. I cover Utilities and Power here. And next up, we have Fortis. And we're pleased to welcome the CEO, Barry Perry.

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

Good morning, everyone. Thanks, Chris. Good to be here at the JPMorgan conference in New York, this nice, cool weather that we're having. When I left Newfoundland a couple days ago, it was just about at the freezing point. So nice to have a little bit of heat. I think there's a weather wall between here and Newfoundland probably, but -- so let's get started. I want to just mention forward-looking information. I'll likely make some forecast here this morning. So obviously, take caution with that. They probably won't turn out exactly the way that I've described. So there's always risk with that.

So our strategy. It's simple, it's proven, it's effective. We basically leverage the operating model of our business, the footprint of our utilities, our operating expertise to develop growth opportunities. While doing that, we are providing guidance to our shareholders that we will be increasing our dividends on average by 6% through 2022 and we're going to maintain investment-grade credit ratings throughout that process.

On the bottom of this slide, we talk about some of our strategic initiatives. We're really focused on executing our capital plans. Organic growth is a key priority at this point in time, focused also on our ITC business that we acquired back in 2016. As you know, that's the largest independent owner of transmission in the U.S. so that business is doing very, very well. Cleaner energy is a focus of the business, especially in places like Arizona, British Columbia. And we're making good strides there.

Fortis is known as well for its strong regulatory relationships. That's really encouraged by our business model because we keep our business teams -- our management teams are local within the jurisdictions, so we're not big on centralization. We have a very small head office, about 60 people back in St. John's. So our operations are kept local. And that really improves our customer and regulatory relationships.

We do have some LNG opportunities in British Columbia. We have been producing LNG there for a very long time for our gas distribution franchise. And we're looking at some of those facilities and expanding them to create LNG for transportations and bunkering of vessels possibly and also maybe even creating a small-scale LNG export terminal to ship LNG to Asia. And our constant focus is finding ways to go beyond our base plan. And we're clearly using our footprint of our utilities to do that. And most recently, we announced, for example, the Wataynikaneyap project up in Ontario, which is a large transmission project that FortisOntario is doing at this point in time.

So overall, we are 97% regulated. Balance sheet now is close to $50 billion in assets. What's neat about Fortis is most of our assets are T&D assets. 92% of the business is focused in that area. Whether it be poles and wires or gas distribution pipes, that's our primary focus frankly. And we do have a little bit of generation at our business in Arizona and some at our utilities in British Columbia and Newfoundland. And Canada is mainly hydro generation. In Arizona, it's a combination of gas, coal and renewables.

Now the business has really been shifted from a Canadian-centric business over the last 5 or 6 years to a North American business with now 64% of our earnings coming from our U.S. businesses. So in my view, Fortis has probably executed one of the most strategic moves in our sector in the last 5, 6 years by acquiring 3 good public companies, utilities in the U.S.: Central Hudson Gas & Electric in New York; UNS Energy, which is essentially

Tucson Electric Power in Arizona; and then in 2016, ITC. It's amazing that, in fact, we closed our deal for Central Hudson in 2013. And we're sitting here today with 3 businesses now in the U.S. We've done a lot in 5 years when you think about it. It was only 5 years ago that we closed our first U.S. acquisition.

So this is the footprint of our businesses. We cover most of North America. Now we are likely the most diverse utility in all North America at this point in time. And as I pointed out back up there up to the right where Newfoundland is, we are the closest point to Europe you can get in North America for the people that are not quite familiar with the geography. That's where we started. We own a company there in Newfoundland called Newfoundland Power. That was 20 years ago, 100% of the company. And now it's down to 3% to give you a sense of how much we've diversified away from the province.

First quarter was good for the company. We really came out well for this year. As I mentioned, we also announced the funding framework for this large transmission project up in Ontario. I'll talk more about that in a bit. It's an 1,800-kilometer transmission line in Northern Ontario that connects up 17 First Nation communities to the grid in Ontario for the first time.

The other thing we worked on in the quarter was Central Hudson's rate case settlement. This would be the second 3-year settlement that we've achieved since we acquired the business. And just earlier this week actually, that was ratified by the commission. So we're off and running now for the next 3 years. We did agree to an ROE of 8.8% there. It's a little low. But we did manage to get our equity thickened over the course of the 3-year settlement. We have moved from 48% to then 49% to 50% in the final year of the settlement.

So Fortis, we've had a real strong record of rate base growth and earnings growth. Last 5 years, our rate base growth has been about 7% CAGR. That's stripping out the acquisitions. So on, I'll call it, a same-store basis, our base business has grown its rate base by about 7%. And we've grown our EPS by about 8% over that period -- a CAGR of 8%. So when you think about it, we accomplished this major strategic push into the U.S., acquiring 3 utility businesses. At the same time, we grew this business at, I would say, top quartile kind of growth over that period of time. So sometimes, we get knocked a little bit that people say that we have to acquire companies to grow. That's not true. We grow our business as good or better than any other business out there. And that's going to continue into the future.

Dividends. If you buy our stock, you should be buying it for the dividend record frankly. We've now increased our dividends for 44 consecutive years. It's one of the top companies in Canada from that perspective. I think there's just one other company that may be better than that. So we outperformed all the banks and telephone companies. So it's a very important metric for our company. And that's why we give dividend guidance because that's where we focus our attention. And we've provided now that guidance out to 2022. And we typically update that guidance in our fall period when we have our Investor Day.

In terms of returns, from a Canadian perspective, in terms of comparisons, we've had over the last 5 years about a 9% shareholder return per year. The composite index in Canada is 8%.. And the utilities index is about 5%. So we've had good performance.

Tax reform. I know a lot of you are interested in that. We've come through this reasonably well. Obviously, when it happened, I said we took a big of a smack on tax reform. And from that point, we're going to be getting a little better. We went through processes with our 3 U.S. utilities, essentially delivering back the benefits of tax reform to our customers. So customers have been seeing rate benefits from tax reform, and in case of transmissions, some significant decreases in their rates frankly from tax reform.

As you know, interest deductibility is, we believe, it's maintained for the sector. We fall within side this EBITDA cap. And I know the sector is working on some clarifying language there with EEI. And obviously, we actually didn't even think we needed that but we support the efforts of EEI.

In terms of credit rating agencies, we went through a very thorough process with our agencies in the first part of this year. Moody's confirmed our rating and S&P did put us on a negative outlook, allowing for some time for us to gradually repair our metrics. I do expect over a reasonable period of time that, that negative watch will be removed, and we'll maintain our ratings. So we've come through pretty well frankly. We have not had to issue any incremental equity other than our normal DRIP program. We did put in place an ATM, a $500 million ATM. It was more for incremental growth opportunities. And we haven't utilized that ATM at this point in time.

These are our ratings. Obviously, we have also lots of liquidity. We have significant facilities both at the corporate level and at our subsidiary level, most of which are not utilized at this point in time.

The Wataу project, very exciting project. If you can ever be involved in a project like this in your career, you should jump for it. It's amazing that we still have communities in North America that are not connected to the power grid and are using antiquated small diesels to keep their communities running. And in many cases, those diesel plants when at max capacity, you couldn't actually build a house in these communities, for example.

So what we're doing is connecting up these 17 communities to the grid in partnership with First Nations. So we are a 49% partner. They are a 51% partner. And they want to make sure this is a business and it's treated as a business. And that was their message to the governments of Canada and Ontario. And I'll point out the federal government is actually putting in $1.6 billion into this project. And it's still a $1.6 billion project as well on top of that. So this is a big project. We are leading the charge on it, responsible for the construction of it. And we just filed a leave-to-construct with the OEB in Ontario and expect that we'll have a decision on that in the early part of 2019 and get that project going next year.

So looking forward, we have indicated to The Street that our CapEx program will be about $15.1 billion over the next 5 years. We updated that budget midway through this past year with the Wataу project in Ontario. It was $14.5 billion last year when we had our Investor Day. We added $600 million to it, which is our share of the Wataу project. And now we're at $15.1 billion. We'll be updating that 5-year budget again later this year as we work now on our capital plans at each of our utility businesses. I do expect the $15 billion to increase. So the next vintage of the plan will be higher than the $15 billion, and so -- but if we're just looking at this number now, that allows our rate base to grow by in excess of 6% over the next 3 years and a 5-year CAGR of 5.4%, not bad actually for a low-risk T&D business frankly.

So we've been working with our utilities now to make sure we are spending the right amount of capital in each of the businesses for all the things that are happening in our sector, whether it be renewables, grid modernization, technology, all of that we're focused on. And I do expect that these numbers will be lifting up even more so as we head into the end of this year.

The neat thing about Fortis as well is most of our CapEx is not what I'll call big CapEx, multiyear CapEx, big pipelines, for example. That's not what you get when you get Fortis. Because our business is mainly T&D, a lot of our projects are small in size. So what we listed here is the projects, I think, over like $150 million or so. So these are the only projects in our list that are of size basically. And the reason that's important is that our capital plans are highly executable. There is very low risk that they are not going to happen. So if you're an investor and you're looking at the growth profile of Fortis, you can be pretty confident that what we're telling you on our CapEx is what's going to happen over the next number of years.

So again, looking at the continent, these are some of the initiatives that we're pursuing that are over and above our base CapEx plan. We have things like the Erie Connector project, which some of you have learned about from ITC, which is -- connects the Ontario grid to the PJM grid for the first time. That project is fully permitted on both sides of the border. And we continue to work on commercial arrangements to allow that project to go forward. It's sort of USD 1 billion-plus kind of project and clearly is a very exciting project. We are -- in Ontario, we just went through a provincial election. So there's some -- I think time has to pass now for things to settle out. There's been a change of government there. But we will be continuing to focus on securing the commercial arrangements for that project in the next few months.

The other areas in LNG in British Columbia. There is, for some of you who are not familiar with it, there's tremendous amount of gas that have been proven reserves in British Columbia, something like 400 sort of TJs of gas that's proven. And some larger projects, Shell just announced they're going forward with a $30 billion LNG project in that province. We currently own the lion's share of gas infrastructure in the province in terms of the transmission and distribution pipes. We supply about 1 million customers there in our gas distribution business. So we are looking at all the things that are happening and finding ways that we can participate in that build-out of gas infrastructure.

We just built a large LNG tank and some more liquefaction for transportation purposes. For example, we are fueling the ferries, some of the ferries in British Columbia; also some large return-to-base trucking facilities; trucking LNG to remote communities to displace diesel, strong support from the regulator and the province there for those initiatives. We are also approved for a $400 million expansion of our facility to provide LNG for bunkering of vessels.

Oceangoing vessels have to improve their emissions from the fuels that they're using, especially the car carriers that are coming across from Asia. These vessels are really starting to move to LNG frankly. And we want to tap into that market. We have not built that into our plan yet because we really want to understand the market, how do we access it. We're doing that work right now. But we have the approval from the government to go forward with that project. And it's something that could be built into our next 5 years once we get further along this year.

Clearly, ITC is pursuing opportunities all over North America in terms of transmission. They are looking at some things in Mexico, not much happening there right now. But you shouldn't be surprised if ITC lands transmission projects outside of its traditional footprint. That's what they do. And we continue to support those initiatives.

So regulatory stability. When you're operating in 10 regulatory jurisdictions like Fortis, 10 utility businesses, you're always sort of in a regulatory proceeding somewhere. But we actually are in a pretty quiet period right now. We just settled Central Hudson obviously. So the really the only material outstanding regulatory matter that we have is the, I would say, the ROE proceedings at FERC for ITC, the MISO complaints. And they been dragging for a while now clearly. And we're looking forward to getting resolution of those matters. And time has helped us here. I think if you were filing or doing the calculations now for ROEs, they should be higher than what they actually are currently. So that's good. The sort of backdrop that we have here is pretty positive. And the other issue is this pancaking, where people can continually file these complaints. We're hopeful that FERC will be dealing with those matters going forward as well. So that's sort of the one major matter that continues to be outstanding at this point.

So back to strategy, pretty simple, leverage the footprint, operating model, operating expertise of our business to develop growth opportunities. We have a unique business model, very decentralized with a small head office, if you are going to own multiple utilities in multiple jurisdictions across North America, like Fortis does. Our model is what works. And we do get strong support from our regulators. It's why we're able to get our transactions approved very quickly when we announce deals. And it's a model that we're very much committed to. Chris?

QUESTIONS AND ANSWERS

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

Great. So we'll bring a microphone around. But while we're doing that, I wanted to ask you a high-level question on growth. You have your approximately 5.5% rate base CAGR over the next 5 years. You've been very clear that, that's a conservative number. You've highlighted several projects that are not in there. But I wanted to get a sense on another governor of that and that is the customer bill, is there a certain jurisdiction that you would be more concerned about or have more headroom on, on that front. And how much of that is a limiting factor in your thinking?

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

Well, I don't think I'll single out any jurisdiction other than to say that it's always a front-and-center concern. Anytime you're looking for rate increases, you better make sure you've got things locked down well and that you've had a good track record in cost control in your business and that you can justify why these projects should be done. And that's what Fortis has done over the years. We've had tremendous relationships with our regulators. They've been reasonable to us. We never get everything we look for. But we typically get our capital plans approved without much alteration. In some jurisdictions, in BC, for example, we obviously are benefiting from the low price for natural gas. So the impacts of infrastructure spend is not as great as they would have been if gas was much higher. And so this is a good time to be modernizing the system there. But overall, no, we haven't had any -- I can't point out any major area. Arizona has been an incredible place for us. The state has gotten it right frankly from a customer rate perspective in terms of gradually bringing renewables on, being methodical about how it takes thermal generation out of the system, keeping its rates around that $0.10, $0.11 kilowatt hour for residential. Obviously, the other jurisdictions that have really not done well with that, Ontario is an example where rates have skyrocketed because of various policy choices of the government. And we're fortunate that we haven't been involved in those kind of conversations.

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

Anything from the audience? Okay. Moving on to ITC specifically, can you give us a sense as to how important that is to your overall growth trajectory, that overall rate base number? And then you touched briefly on the ROE challenge. Could you elaborate a little bit as to what you're thinking maybe on timing of clarity there or the ultimate outcome now that we've had so many changes at the FERC?

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

Well, ITC is pretty simple math. It's our biggest utility. It's about 40%, 30% to 40% of the overall company. So ITC determines, to a large extent, the success of Fortis. And I'm very, very pleased. Linda Apsey is here with me today, the CEO of ITC. And Linda has been doing a very good job for us after taking over from the founder of ITC, Joe Welch, back when we acquired the company. And ITC will probably be close to our fastest grower over time, I would think. And I jokingly said that we were able to buy ITC because the market thought that ROEs were going to continue to go lower and that ITC's growth rate was going to be slower. We're going to prove that wrong. I think ROEs are stabilized. And I think ITC's growth rate is going to be higher than what the market ever thought it would be back at the time when that company was essentially put in play. It's interesting. ITC is at a higher ROEs and a higher average growth rate than the sector yet it was trading below the typical U.S. utility at the time that we acquired it because the market just got unhinged frankly about what it thought about that business. And we benefited from that. We ended up being successful in acquiring it and -- but stay tuned for the growth at ITC is all I'm suggesting. In terms of timeline, Chris, I can't predict. We would have thought that this would have been done by now. But FERC has got some really big matters in front of it. And it's not come forward at this point. So it could happen in the second half, I suppose, of the year. But I can't really predict exactly when it's going to happen.

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

Okay. And then you recently got the settlement approved at the Central Hudson utility in New York. You also touched on ROE and capital structure tradeoff. How can we look at that outcome versus maybe what you had expected going into that rate case? Does it change your plan? Does it hold you back at all?

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

No. First of all, Central Hudson is not a big company in our mix. It's about 10% of the business, I think, overall. We are very happy with the outcome in New York, I would say. It's a reasonable settlement. The company is growing very quickly. Its rate base growth is 8% a year, a small utility up in the Hudson Valley. When we bought it back in -- closed in 2013, it had $1 billion of rate base. By the end of this rate period, so 3 years from now, that rate base will have doubled. So that's a pretty short period of time to double the rate base in New York. And we've done that while dealing with some serious storms and maintaining our reputation with our customers and with the regulator and it's been a really successful push into New York, I'd like to own more assets here if I could. And I'm not sure a lot of utilities actually say that. But we have a good team on the ground in the Hudson Valley. They hit above their weight in the jurisdiction. And they delivered a good outcome for customers with this settlement and for shareholders frankly.

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

And then could you give us an update on the Alberta regulatory environment, what to expect over the course of this year and what might change versus your performance so far?

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

Yes. Alberta is going through a bit of a -- some significant proceedings. They just announced the new PBR regime, which is a tough -- it's a tough regime. And there's a cost of capital hearing that's been going on there for the sector. I'll point out we put some evidence on the docket related to ROEs and the sort of regulatory compact in Alberta. We listed our 10 jurisdictions that we operate in by equity thickness and ROE. Unfortunately, Alberta is in 10th place. It's 37.5% equity thickness and 8.5% ROE. That is not sustainable. It needs to start coming up. And I would say that's generally applicable to the entire Canadian regulatory landscape. To think, Canada right now is about 10 full points on equity thickness below the typical U.S. utility. It's about 100 basis points or more lower on ROE. And let me tell you, regulation in Canada is no different than regulation in America. At one point, 10, 15 years ago, Canadian regulation was maybe seen to be better. We had lots of deferral accounts, pass-throughs, forward test years, these kind of things. But I can tell you that you guys know the U.S. regulatory regime has improved dramatically over these last 10 to 15 years. A lot of those same risk-mitigating mechanisms are now in place in U.S. utilities. And a typical U.S. utilities have 50% equity thickness and high 9s to 10% ROE. So we have to work on this in Canada. We have to get this moving in the right direction. It will take some time, probably a series of cost of capital hearings. But we've got $11 billion, $12 billion rate base in Canada. 10 full points is $1 billion worth of equity that if those businesses were in the U.S. that we'd have more equity in those businesses. And that needs to happen over time. So that's one of the things we're going to be focusing on going forward. And hopefully, we can start to see these businesses improve for the benefit of their customers frankly.

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

Okay. What are the next things to watch for in British Columbia on either the LNG front or incremental pipeline investment? You've talked about a variety of opportunities. It seems to be one of the more exciting areas for the company.

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

Yes, BC is very dynamic right now. Vancouver obviously is beautiful. The Interior, where we have our electric utility, is like the utopia world. It's all Lake Okanagan, Kelowna. Canadians, I think we all desire to retire in that region. But our gas business is concentrated mostly over all the province but heavily concentrated in the Vancouver Lower Mainland area. On the pipe side, we have about 50,000 kilometers of pipe in the province. We're doing a lot of work on pipeline integrity, inspection of that pipe. Even think about it, you've always heard about the pigging the pipe. The large lines have always been done high-pressure lines. But now that sort of modern technology, you're bringing down that into the sort of lower-pressure pipe. So we're looking at taking out the bottlenecks and sort of allowing -- so that we can allow that pigging to occur. So that's going to show up in our capital plans going forward. But I would say the thing in BC that I sort of think about is are we underestimating the growth, right? We're adding about 20,000 customers a year right now to our gas business there. It's about 2% growth. It's a dynamic place. We may be underestimating that growth. And that will show up in capital investment as well.

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

Excellent. And then rounding out the major jurisdictions, Arizona, couple large generation projects there. Certainly, at times in the past, it's been a controversial jurisdiction from a regulatory perspective. What's the latest on the projects and your outlook for growth?

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

Well, first of all, we've had no controversy in Arizona since we acquired the business. It's been nothing but a practical regulator from our perspective. And we've got our deal done there in 9 months, which is record speed for a regulated utility deal. And we've had a reasonable dialogue with the regulators since. The one thing in Arizona obviously that you have to be aware of is it does have an historical test year, so -- and even though it's not our biggest utility, it's our second-biggest utility, it does create a bit of a sawtooth pattern in Fortis' growth profile because the best year is when Tucson Electric Power gets its rates established. That's when we earned our earnings pickup. And then from that point forward, we end up with a bit of a decline because you're investing your capital without the rates until you file your next rate case. And that's where we are right now, by the way. So the next rate case is probably a couple years away in Arizona for the company. But I will say when Fortis -- when we bought into Western Canada, Alberta was our growth engine. We were growing that business by like 10%-plus a year back in the early 2000s, mid-2000s. I think Arizona is going to be that kind of business for Fortis. We are seeing some really big opportunities to grow that business in generation, in transmission and lots of things happening in Tucson these days. Clearly, Phoenix APS, probably the best franchise in all of the United States. Tucson just sits below it. So we get a lot of the residuals from that market and lots of new jobs being created. And I'm very optimistic that the Arizona business will continue to grow very, very nicely over the next few years.

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

Excellent. I think we'll cut it off there. Thank you very much, Barry.

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

Thanks, Chris.