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

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Jessica and I will be your conference operator today. Welcome to the Fortis Second Quarter 2018 Conference Call and Webcast. During the call all participants will be in a listen-only mode. There will be a question-and-answer session following the presentation. (Operator Instructions)

At that 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 Jessica, and good morning, everyone, and welcome to Fortis's Second Quarter Results Conference Call. I'm joined by Barry Perry, President and CEO; and Jocelyn Perry, Executive VP and CFO, other members of the senior management team, as well as executives 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 second 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 we get into the details of the quarter, I want to acknowledge Karl Smith's retirement at the end of May. Our new CFO, Jocelyn Perry, is with us today and I can tell you she is off to a great start.

Performance in the first half of 2018 has positioned us well for the remainder of the year. In terms of capital expenditures, we've invested CAD 1.5 billion in our systems through June and we remain on track to invest CAD 3.2 billion in 2018 as part of our 5 year capital plan.

On the regulatory front, we continue to work with our regulators in a constructive and respectful manner. This was demonstrated at Central Hudson with its rate case settlement in June, reflecting all of the key elements of the joint proposal filed in April. This 3 year rate plan was commenced on July 1, 2018, includes capital expenditures, which totally approximately USD 650 million and represents a balanced outcome for customers and stakeholders.

As a whole, we expect our regulated and non-regulated businesses to grow nicely in 2018. However, there are a number of factors tempering earnings growth in 2018 that are not reflective of our ongoing business. These include mark to market losses on natural gas derivatives associated with Aitken Creek storage facility and the U.S. tax reform impacts.

Overall, we are focused on growing our base regulated businesses. In fact, we are building momentum. For the remainder of the year, we will continue to focus on ways to grow our base business beyond our current plans, all while meeting the needs of our customers and maintaining constructive regulatory relationships.

Turning to Slide 5, our 5 year capital plan of CAD 15.1 billion through 2022 is designed to meet the energy infrastructure needs of our customers while modernizing our energy networks to address the changes occurring in the utility industry. These investments through 2022 translate into a consolidated midyear rate base of nearly CAD 27 billion this year and CAD 33 billion by 2022, equating to a 3 year rate base CAGR of 6.2% to 2020 and a 5 year rate base CAGR of 5.4% to 2022.

Our capital program consists of a diverse mix of highly executable, low risk projects. One of the larger projects, the Wataynikaneyap Transmission Power Project in Northern Ontario includes building 1,800 kilometers of transmission lines to connect 17 remote communities to the Ontario grid. This project is progressing well. We have filed a lead to construct application with the Ontario Energy Board, detailing project elements such as timeline, design, and associated costs. Approval of the application is expected in early 2019. The project is expected to provide economic and social benefits in addition to reducing environmental risk by decreasing the greenhouse gas emissions associated with the diesel generation currently used by the communities.

Beyond executing our base capital plan, we have been focused on finding opportunities to grow our existing regulated utility businesses to the benefit of our customers and shareholders. We are pleased with the results we are seeing to date and remain confident that our growth efforts will support our dividend growth target.

Sources of upside growth in the existing businesses include projects that improve the transmission grid, address natural gas system capacity and gas line integrity, increase cyber protection, and allow the grid to deliver cleaner energy. We plan to roll out our new 5 year capital plan this fall.

With operations in 10 regulatory jurisdictions across North America, Fortis is among the most diverse utilities on the continent. This diversity reduces our business risk and when coupled with our organic growth profile, gives us the confidence to provide our average annual dividend growth guidance of 6% through 2022. We have increased our dividend for 44 consecutive years and remain committed to ensuring this track record continues.

I'll now turn the call over to Jocelyn for an update on our second quarter results.

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

Thank you, Barry, and good morning everyone. Before getting started, I want to say it's great to be back with the Fortis team in my new role as CFO. My first official task is to walk through the second quarter financial results for 2018.

As shown on Slide 10, adjusted earnings per common share were CAD 0.57 for the quarter, down CAD 0.04 compared to last year. Adjusted earnings for the quarter were CAD 240 million compared to CAD 253 million for the same quarter last year.

On a year to date basis, adjusted earnings of CAD 533 million was down slightly from the previous year and adjusted earnings per common share of CAD 1.26 was CAD 0.05 lower than the first half of 2017.

As Barry mentioned, mark to market adjustments at Aitken Creek and U.S. tax reform tempered our earnings during the quarter. Ignoring these two factors, the growth in our base businesses increased earnings per common share both in the second quarter and in the first half of 2018.

As noted on the previous slide, adjusted earnings per common share decreased by CAD 0.04 compared to the second quarter of 2017. Two key drivers impacting the quarter were unrealized net mark to market losses on derivatives at the Aitken Creek natural gas storage facility and U.S. tax reform. As a reminder, the Aitken Creek business hedges its physical gas inventory with forward financial instruments.

U.S. GAAP requires these financial instruments to be valued at the current spot rate on each reporting date and this creates unrealized gains and losses. These accounting adjustments are purely timing. Unrealized losses for the second quarter reduced earnings per common share by CAD 0.03.

U.S. tax reform also negatively impacted earnings per common share by CAD 0.03. As noted in the past, we still expect U.S. tax reform to impact consolidated earnings per share by approximately 3% on an annualized basis.

Performance at our utility operations, including our non-regulated energy infrastructure assets, contributed CAD 0.04 to earnings per common share. This increase was driven by higher gas volumes and favorable pricing at Aitken Creek as well as increased hydroelectric production in Belize as a result of higher rainfall.

Growth in ITC's transmission business related to the execution of its capital plans, contributed CAD 0.02 compared to the second quarter last year. In addition, earnings at our other electric utilities netted to an overall CAD 0.02 increase in earnings per common share during the quarter. Key drivers include a CAD 5 million business interruption insurance claim settlement associated with Hurricane Irma at Fortis Turks and Caicos. The economy on the Turks and Caicos islands has rebounded and we are pleased to have settled the business interruption insurance claim.

UNS earnings contributed to a CAD 0.02 decrease in earnings per common share during the quarter primarily due to higher operating costs for planned generation outages. Changes in foreign exchange rates resulted in a CAD 0.01 decrease in earnings per common share. The average U.S. dollar to Canadian dollar foreign exchange rate was [CAD 1.29] this quarter compared to [CAD 1.34] in the second quarter last year.

And finally, higher weighted average number of common shares outstanding as a result of the strong uptake in our dividend reinvestment plan, lowered adjusted earnings per common share by CAD 0.01 compared to the same period in 2017.

Now, turning to the first half of 2018. Adjusted earnings per share decreased CAD 0.05 compared to the same period in 2017. Similar to the quarter, both unrealized mark to market losses at Aitken Creek and U.S. tax reform have negatively impacted earnings during the first half of 2018.

Operating performance from our non-regulated energy infrastructure assets contributed CAD 0.03 to earnings per common share. Again, this was primarily driven by increased gas volumes and favorable pricing at Aitken Creek and the increased hydroelectric production in Belize as a result of higher rainfall.

Growth at ITC equated to an increase in earnings per common share of CAD 0.02 and was driven by rate base growth, partially offset by higher business development costs related to our efforts to progress our pump storage opportunity in Arizona.

UNS Energy improved earnings per common share by CAD 0.02 driven by the rate settlement implemented at Tucson Electric Power in February 2017. Our remaining regulated utilities improved earnings per common share by a cent for the first half of 2018.

Partially offsetting growth in our utilities was foreign exchange of CAD 0.03 as a result of the average U.S. dollar to Canadian dollar declining from CAD 1.33 for the first half of 2017 to CAD 1.28 for the same period in 2018 and CAD 0.03 due to increased common shares outstanding, driven by our dividend reinvestment plan and a CAD 500 million common equity private placement that occurred in March 2017.

Fortis' low business risk profile and standalone nature of each regulated subsidiary supports the investment grade credit ratings that we have today. From a liquidity perspective, our consolidated credit facilities total approximately CAD 5 billion. At the end of June 2018, there was CAD 3.8 billion of unused capacity including approximately CAD 1.1 billion of unused capacity under our committed corporate credit facility.

The current 2018 to 2022, 5 year capital plan, of CAD 15.1 billion is expected to be funded through debt raised at the utilities, cash from operations, and common equity contributions from the dividend reinvestment plan. Our at the market common equity program is available as well to fund incremental growth as needed.

As Barry highlighted, during the quarter, we made progress in New York with the approval of Central Hudson's 3 year rate settlement agreement, establishing rates effective July 1, 2018. The approved rate plan consists of an allowed ROE of 8.8% with equity thickness of 48% in year 1, 49% in year 2, and 50% in year 3. This result provides us certainty and validates our approach to maintaining constructive regulatory relationships.

At ITC, we continue to await a decision from FERC on the MISO-based ROE complaints. As a reminder, we continue to earn up to 11.35% in MISO until a decision is rendered. With interest rates trending upwards, coupled with FERC's support to incentivize transmission ROEs above state levels, we remain confident there will be a reasonable conclusion to these complaints.

Further, we await a response from FERC regarding the third party complaint filed in April 2018 challenging ITC's independent incentive adders, included in ITC's MISO subsidiaries regulatory compact. But as a whole, we believe ITC has a strong position against the complaint.

I'll now turn the call back to Barry.

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

Thank you, Jocelyn. Our utilities are at the forefront of changes occurring in our industry, driven by increased customer expectations, focused on delivering cleaner energy, grid resiliency, and reducing greenhouse gas emissions.

With over CAD 50 billion in total assets and 10 utility operations across North America, Fortis is poised to grow through investing in its existing utility portfolio. We remain confident in our strategy to provide 6% average annual dividend growth through 2022.

And now, I will turn the call back over 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) Your first question comes from the line of Robert Kwan from RBC Capital Markets.

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

Barry, I'm just wondering if you could give an update on the Woodfibre pipe side of things just generally around the project and if there's some specifics around the nature of the work that you're actually doing at this point in time on it.

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

Robert, thanks for the question. Woodfibre, yes, we're really hoping obviously that this is the year that they make their final investment decision to proceed with the project. We are doing a fair bit of work for them at this point in time and sort of focused on the pipeline construction costs to bring gas to their site. And we've reactivated all of that work at this point in time. So we're focused on that.

There's a fair bit of work to do there so we're spending a fair bit of resources on that at this point. So hopefully, by the fall here, we will hear something from them. I know that the Province of BC is really trying to see if there can be some of these decisions made, not just with Woodfibre but with LNG Canada I think before the end of this year. So we're hoping that we'll get that call and they'll be proceeding with the project.

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

Just turning to the capital plan. As you kind of get through that, let's just say the capital plan produces rate based growth similar to what you've got or even better, I guess just thinking about the dividend, are you comfortable with the 6% growth? Do you think that you're getting appropriate value in your share price? And if so, if you have the same underlying growth, would you consider kind of scaling it back to increase your cash flow? Or if the rate based growth proves out to be higher, would you consider going higher with the dividend growth rate?

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

I don't think we'll be considering going higher with the dividend growth rate. I'll answer that question first, Robert. What we want to be certain of is that we can deliver on our dividend guidance. And I feel comfortable with that at this point, the 6% dividend growth guidance that we have.

We are, as a company, when I look at our peers, I still believe we are growing nicely, but we still have some room to increase our growth rate focused on areas in our industry that present some opportunities, being -- really investing more in our transmission networks, really moving more to cleaner energy and cyber, and increasing the integrity of our pipeline network on our gas business. All of these areas are presenting opportunities for us to increase our growth rate and so that's -- our goal is to refresh all of that this fall.

And so I don't see us increasing our dividend guidance. I think what you'll find is that that increased growth rate in the underlying business will give the market the confidence that Fortis will able to deliver on its 6% dividend growth guidance going forward. And hopefully that gets reflected in our stock because I think when I compare Fortis to our U.S. peer group, especially, we're doing well compared to our Canadian peer group, but compared to the U.S. peer group, we are still trading at a fairly significant discount to that peer group. And I'm not satisfied with that, frankly.

And I think our business model, the low risk nature of the diversified group of utilities that we have, I'm hoping that I can convince shareholders that we can narrow that gap as we compare ourselves to the U.S. peer group.

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

Maybe if I can finish here with Aitken Creek. Presumably you've hedged spreads over several quarters. So I'm just wondering if there is some directional guidance as to when we might expect those accruals to reverse. Or put differently, there was a statement earlier in the call of these marks being headwinds to 2018. So I'm presuming that the accruals will not at least all reverse in 2018 and will kind of carry over into 2019?

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

Robert, this is Jocelyn. Yes, with respect to the unrealized losses, theoretically they should reverse in the following year, and we did have CAD 26 million of gains in the previous year, of which CAD 15 million of the losses are being recognized this year.

Really hard to predict out to the end of the year because it will obviously depend at the price at December 31 and what volumes we're holding at that time. So it's difficult to predict, but theoretically, yes the losses are -- the gains from previous years should reverse in the current year.

Operator

Your next question comes from the line of Rob Hope from Scotiabank. Please go ahead.

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

Just wanted to follow up on Robert's first question regarding the growth outlook. Barry, in your prepared remarks you did speak to the potential for growth in excess of your secured plan. Some of these would be more near-term in nature like cyber and gas integrity and I guess some would be more longer term in nature, such as your larger projects. When you look out to the fall, it would appear that you're pointing to a higher kind of overall capital plan. But is this more front loaded or is this more filling out the tail-end of the plan?

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

I would say it's across the curve, Robert, not all in years 4 and 5. So it's interesting that we're seeing some lift in the early years as well. And obviously, we haven't locked all these details down. We're working feverishly at this point as we get ready for our Analyst Day, but it's definitely -- you're going to like how it affects our 5-year CapEx program.

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

Moving south of the border, UNS. So after a strong Q1, Q2 was a bit more normal. Can you speak to the impact of the planned generation outage in the quarter? And I guess moving forward how economic activity is trending in the region, and weather, and how they should play out for the rest of the year?

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

I have David on the call. I'll let David chip in, in a second. But this is just some normal stuff happening in the quarter on generation outages, Rob. So nothing there. I will tell you that I am very optimistic about where we are in Arizona. There's lots of opportunities to grow the business there.

The economy is picking up. David heads up the local Economic Development Association, I think it's called Sun Corridor there, and they've landed a couple large new investments in the Tucson area that's creating lots of new jobs and I'm sure they are working on others that we're not able to disclose at this point. But there is real optimism in the region at this point. And I am very excited about our investment in Arizona. David, you want to add to that?

David Hutchens - *Fortis Inc. - EVP Western Utility Operations and President & CEO UNS Energy*

Yes, thanks Barry. I would just add that we are seeing some very good growth momentum, some nice green shoots for growth opportunities down here in Southern Arizona. We see that picking up this year. We see a good pipeline of additional projects going forward. The outages are just kind of a year-to-year variance. There is nothing really to see or anything all that interesting about those quarter-to-quarter variances. And Rob, I can guarantee it will be hot here, I just can't guarantee that it will be hotter than normal.

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

It's cool down there today. It's 100.

Operator

Your next question comes from the line of Ben Pham from BMO. Please go ahead.

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

I was wondering with your Investor Day and listening to your comments, it seems like the plan is to keep with the 5-year forecast and CapEx rate base, dividend expectations. But as you think longer-term though, and just seeing what's going on with maybe some of your peers in North America moving towards a shorter forecasting period, do you guys see really a benefit of keeping a 5-year forecast when you look at the pros and cons? And maybe even a step further even, do you even really need a dividend growth expectation when you have some good visibility in rate base?

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

Good questions, Ben. Once you're out there on these things, it's hard to roll them back obviously. If I was sitting here today and we were announcing guidance for the first time, I'd probably be talking about 3 years rather than 5. But we've retooled the company to focus on the 5-year growth rates and I'm comfortable of where we are. It's not our plan at this point to roll them back to 3 years.

The interesting conversation revolves around dividend, sorry, earnings guidance. Some of our U.S. shareholders would like us to provide earnings guidance and maybe are not as concerned about dividend guidance as such. At this point in time, we're still thinking we will stick with the dividend guidance. They are obviously closely related because your payout ratio is the governor on all of that.

So I don't think we're going to be changing where we are at this point. I will tell you that it's my goal to remove every impediment in our business that could be seen as a reason why we trade at a discount to our typical U.S. utility. As a management team, we're focused on that. We're obviously running good utilities, have good regulatory relations across all of our North America, but we need to remove any impediments that point to our reasons why our stock trades at a couple term multiple to the typical U.S. regulated utility. And we're going to knock these things off over time.

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

And second question on the MISO ROE. Are you're expecting a decision this year in your plan? And maybe you can remind me and folks listening the incentive adder, what was driving that initially?

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

The decision in terms of MISO complaints, it's hard to predict. As you now know, I guess there is a FERC Commissioner that's leaving in mid-August. That may cause some changes to scheduling for decisions around this stuff. So it's hard to predict if we will get a decision in the second half. So I think your judgment and information on that is may be as good as ours, frankly, at this point in time.

In terms of this incentive adders I will tell you that where that comes from is the owners of the utilities that -- in the regions that we operate in are always trying to find ways to reduce cost for their own customers and the transmission cost is a part of their bill. And I suppose they see it as their job to continue to challenge those costs over time. And we feel very confident that the incentive adders are appropriate and that FERC will see that to be the case, since they are mandated essentially to promote investment in transmission.

So we are optimistic that the risk there is low, but we'll always face these kinds of complaints because it's just part of what the state regulated businesses are essentially required to do.

Operator

Your next question comes from the line of Robert Catellier from CIBC Capital Markets. Please go ahead.

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

I think I will follow the line of questioning that Ben had here on the FERC. You gave your sort of view that it's hard to predict timing given that there is a commissioner leaving, but does that also make it more difficult just to get decisions now that there will be a period where it will be split along party lines?

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

It's possible but I would tip my hat to FERC on this. I think FERC is a big organization. They need to function and these things happen. So I would expect that decisions would continue to flow from FERC. There has been consensus on certain topics between both parties, so I think that is possible. So I'm not going to sit here and think that we're going into a shutdown mode at FERC at this point in time.

So I'm hopeful that we will move forward on some of these key matters at FERC and we won't lose ground. But I suppose, the other side of it, maybe that's possible. So it is hard to call at this point in time.

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

There is comment in the MD&A about tapping a rate reduction proposed for the FERC. Can you quantify that impact and is that basically within the keeping of your guidance?

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

Sorry, Robert can you repeat? I sort of lost you?

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

TEP proposed a rate reduction to FERC.

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

Yes, this is related to tax reform. So go ahead.

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

So the question is if you can quantify whether it is contained within your previous guidance?

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

Guidance on our dividend guidance or?

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

No, just earnings and cash flow.

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

Yes. It is. The 3% EPS impact would include that as well.

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

And then finally from me, I wonder if there's any substantive updates you can give on Lake Erie given the recent change in government?

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

No, there isn't really. There has been a lot of activity obviously in the province since Premier Ford was elected. He's been focused on, I think, other things. And so I would say the project is still there. We have all the permits and we are ready to move forward, but it will take some time for us to get in front of the Premier and to really, obviously, bring forward the benefits of the project in the new administration.

So we are fortunate that the permitting is good for some period of time and we are not spending any large amounts of money on that project right now. So we are in a reasonable spot to deal with this transition that's occurring in the province.

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

It's understandable that it will take some time to get in front of him given his other, quote, urgent priorities. But do you have a sense of when -- how long would it take for you get an audience and get the momentum going again?

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

We don't really. I would hope it happens this year. Robert, what you have that sort of stand on is the benefits of this project. It connects Ontario to the largest wholesale market in the world, I believe it is, and especially the U.S. with a direct line for the first time. The NEB has estimated the benefits of $250 million a year to have this line in place.

So we are hopeful that the commercial side of this will convince the province that it's a viable option and we need to have those conversations, and we will hopefully have them before the end of this year.

Operator

Your next question comes from the line of Andrew Kuske from Credit Suisse. Please go ahead.

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

Barry, you mentioned this couple of times on the call already just on the valuation discount that Fortis suffers from at this point in time versus the peers in the U.S. So maybe let's just go to the heart of it. What do you think the big issue is for just investors stateside? Is it really misconceptions or misperceptions of the balance sheet at this stage or just not understanding the Canadian model and how you approach things?

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

It's probably all of the above. One of the fundamental thoughts, Andrew, is the sort of Canadian regulatory landscape. We've got $10 billion of rate base in Canada that is -- if it was in the U.S. would generate about CAD 150 million more of earnings under if you assume the average ROE in the U.S. and equity thickness in the U.S.

So that Canadian business, albeit a very strong business and we're very much a believer in the Canadian business, it does generate less returns for shareholders compared to a typical U.S. investment.

So we have to, over time, find ways to improve that regulatory compact in Canada and we'll continue to work on that. It will take I think some time to fundamentally change some of that, but we do have to work on that.

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

And then maybe just as an extension on that regulatory compact. When you look at the comparative jurisdictions, you tend to have a lot less regulatory volatility in Canada then you'd see in the U.S. I mean you have best-in-class utilities in the U.S. and so maybe you have less than some other peers in the U.S. But do you think you get credit for having lower vol in Canada versus the U.S.?

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

Well, obviously, you and I could debate some of this stuff for a little while, Andrew, but I'm not seeing what you're suggesting in the U.S. in terms of volatility. The U.S. regulatory compact has dramatically improved over the last 10 to 15 years. So many U.S. utilities have worked with their regulators to remove some of the issues around that volatility, whether it'd be putting in forward test years or pass-through mechanisms. They have really improved their situation.

And at best, I think the Canadian regulatory compact has stayed the same. So that's a problem and we need to work on that. So now, listen I'm committed to our Canadian business. It is a really good business and all of that, but increasingly it becomes pretty stark, the comparison between outcomes in Canada versus outcomes in the U.S.

Operator

(Operator Instructions) Your next question comes from the line of David Quezada from Raymond James. Please go ahead.

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

Just one question from me. Just related to the Arizona pump storage project, I know there was some commentary last quarter that there was some good momentum there. Wondering what kind of timeline, if you have one, for it to be included in any kind of formal capital plan and what kind of milestones we should be looking for there?

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

We're just at the early stages. This is a really large project. We would have to bring in utility partners I would expect to be involved in it. This is an ITC driven project so already our Arizona utility is getting involved in it, but we would need much more broader participation. We've had some open houses in Northern Arizona. Clearly, the big issue there is water resources. And we have to obviously allay any real concerns around those issues for local stakeholders.

So I would say we're some ways away from building this one into our capital plan at this point in time. We have allocated $10 million at ITC for this, this year, to progress the project to a point where we have to decide do we allocate more capital in the upfront development of the project. This is a kind of project you may have to spend $100 million to $150 million before you would know if it was going to go or not.

And so we're exploring all the issues around that and what's the support in the state for it. We know it's what the Southwest system requires. This project is going to allow substantial more renewables to come onto the grid. And if you're going to build solar, and wind, and all that, the Southwest is a good place for it. So this is a kind of project that supports all of that, but it is a large project. And we'll see where we are at the end of the year once we do some more work on the development side.

Operator

Your next question comes from the line of Jeremy Rosenfield from Industrial Alliance. Please go ahead.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Just following on some of your earlier comments, Barry, around some return opportunities and return levels in the U.S. versus Canada. Does it make sense to try to right-size some of the business a little bit and repurpose capital from some of the Canadian utilities and maybe by selling some of the smaller components and put that capital to work with higher return opportunities in the U.S.?

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

As stewards of the business, we've always got to look at opportunities, right. If someone was prepared to pay us a lot of money for any part of our business, we'd have to look at it. We're not actively marketing any of our businesses. Our goal really is to work with our regulators to improve our situation. That's our goal and I think that's where most of the value lies.

That being said, as our business continues to grow faster, we will have to look at funding opportunities for that business. And it doesn't necessarily mean we always have to go and issue equity, for example. We have to be smart about that and we will be smart about it going forward.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

And then just thinking about also opportunities, are there more opportunities on the sort of contracted renewable side of things, also following on comments that you made earlier versus were you thinking contracted renewables or were you thinking rate base renewables when you talked about renewable opportunities?

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

I'd like to do rate base renewables preferably but I know David and his team have led a mix appropriately so in Arizona always making sure we're doing the right thing from a customer perspective. But as renewables have become pretty cheap here and solar and wind are getting down to $0.02 and $0.03 a kilowatt hour, it's becoming I think more acceptable to have those move in the rate base and some regulatory jurisdictions in the U.S. have approved fairly large chunks of renewables to be included in regulated rate base for certain utilities.

And we are hopeful over time we might be able to achieve some of those outcomes in our Arizona business. David anything you can add there.

David Hutchens - *Fortis Inc. - EVP Western Utility Operations and President & CEO UNS Energy*

Yes, I would just say that's one of our big focuses going forward is making sure that as we build out our renewable portfolio that we get a better balance of owned and PPA assets. Right now it's tipped very heavily towards the PPA so you shouldn't be surprised to see most of our projects on a going forward basis coming into rate base.

Jeremy Rosenfield - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

And how long do you think that - David following on that, how long do you think that it takes to sort of shift those PPAs largely into rate base?

David Hutchens - *Fortis Inc. - EVP Western Utility Operations and President & CEO UNS Energy*

It's not necessarily shifting the existing ones into rate base, it would be the new projects that we'll building. We've got 600 to 800 megawatts of renewables, solars and wind that we'll be looking at adding between now and 2030. So, most of that I would see going in as rate base owned investments.

Operator

Your next question comes from the line of Patrick Kenny from National Bank Financial. Please go ahead.

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

Just in Alberta looks like the business is holding its own under PBR 2, but may be you can give us a quick update on your outlook in the province both with respect to cost savings initiatives and also on the growth front here after not seeing the results of the final CMB and whatnot?

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

So Patrick obviously Alberta is still a very big part of our overall business and we did have a pretty reasonable quarter there. But every iteration of PBR gets more difficult right that's the nature of PBR. I'm sure there are some opportunities and I'm going to let Janine, Janine you're there. Janine is our CFO of our Alberta business. Janine, do you want to comment on Patrick's question.

Janine Sullivan - *FortisAlberta - VP, Finance and CFO*

Sure, yes. So obviously, we received the decision in the first half - first quarter actually of this year. And we've had some time now to digest this, I mean any of these PBR proceedings are very long in terms of they go on for quite some time. So we've had some time now to work through the implications and understand it and kind of get our head wrapped around it. And we have been able to respond much like you refer to cost savings.

Really doing what PBR wants us to do revaluating how we run our day-to-day business, and making sure we're doing as efficiently as possible for customers. And in that respect, PBR is working and we're finding ways to respond. And so our results were fairly strong for the quarter.

I mean, we did have recently appointments now finally, with the commission. So we now know who the ongoing chair will be. And that we think will offer some stability and allow us to get a bit of a longer term view of regulation in Alberta for the next 5 years.

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

And then Barry, just to follow-up on the recent conversation with respect to the discounts, Canada versus U.S. When we look at the Canadian utilities here, BC of course, you're waiting on LNG, Ontario, you've got the upside there with Lake Erie and what not.

I'm just curious and maybe you'll have more comments in the fall at the Analyst Day. But when you look at potential dispositions across the portfolio, and I know you'll be waiting for the GCOC decision in a week or so in Alberta. But would Alberta fall into the camp of more of a disposition candidate longer term?

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

Absolutely not. Listen, our Canadian business is core to the Company. And I made the point about trying to understand why there is this discount, right. And when you really look up to the underlying business, you start to see these differences. It's a management challenge really over time to find ways to convince our stakeholders, the benefits of having stronger utility businesses in Canada and how that really benefits our customers.

That's our goal, and I think we'll have some success over the next two or three rate cycles. This is not going to happen overnight. This is something that has to take some time to achieve. So, don't be expecting us to be announcing sales of our pieces of our business. I make the point in that, as a management team we have to be wary of why there is a discount.

Again, we're doing better than most of our Canadian peers. But when you look at our peer group, we're using 23 American investor owned utilities and I guess two Canadians as our peer group. So, we're focused on that high-performing U.S. peer group at this point in time. And we got to close that discount.

Operator

Thank you. There are no further questions. I would like to turn the call back over to Ms. Amaimo, for closing remarks.

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

Thank you, Jessica. We have nothing further at this time. Thank you for participating in our second quarter 2018 results call. Please don't hesitate to contact Investor Relations, should you need anything further. Thank you for your time, and have a great day.

Operator

Thank you for participating ladies and gentlemen. This concludes today's conference. You may now disconnect.
