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Unless otherwise specified, all financial information is in Canadian dollars and rate base refers to midyear rate base.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Carol, and I will be your conference operator today.

Welcome to the Fortis Third Quarter 2020 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, Carol, and good morning, everyone, and welcome to Fortis' Third Quarter 2020 Results Conference Call.

I'm joined by Barry Perry, President and CEO; David Hutchens, COO; Jocelyn Perry, Executive VP and CFO; other members of the senior management team as well as CEOs from certain subsidiaries.

Before I begin today's call, I want to remind you that the discussion will include forward-looking information, which is subject to the cautionary statement contained in the supporting slide show. Actual results can differ materially from the forecast projections included in the forward-looking information presented today.

All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our third quarter 2020 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 & Director*

Thank you, Stephanie, and good morning, everyone.

If you participated in our virtual 5-year outlook conference call last month, you know it was a busy third quarter for Fortis.

Key highlights from our September 23rd call included the announcement of my retirement as President and CEO at the end of this year; and David Hutchens' appointment as President and CEO effective January 1, 2021.

We also rolled out our new 5-year capital plan, announced a fourth quarter 2020 dividend increase and extended our 6% average annual dividend growth target through 2025.

On the sustainability front, we announced a corporate-wide target to reduce our carbon emissions by 75% by 2035 compared to 2019 levels.

Maintaining safe operations remains our priority. Our September year-to-date safety results were strong, with incidents tracking in excess of 30% below our 3-year average. When you consider that historically, we performed better than the industry averages, it's encouraging knowing we continue to improve our safety performance during the pandemic, while working on our largest capital program in history.

Operationally, our teams have worked diligently to deliver reliable service in 2020. Notably, in August, the ITC team responded to restore transmission service following the historic windstorm in Iowa. As a result, approximately 1,200 miles of lines were damaged by the storm, ranging from mild damage to towers laying on the ground.

In response, the ITC team mobilized nearly 800 utility workers to rebuild the grid safely and quickly.

I'm proud of our teams across the organization as they continue to deliver safe and reliable service, positioning Fortis to finish the year strong.

With that said, let me hand the call over to David Hutchens for an operational update and more detail on our new 5-year outlook.

David Gerard Hutchens - *Fortis Inc. - COO*

Thanks, Barry, and good morning, everyone. As Barry noted, we continue to navigate through the pandemic and our businesses are performing well. Our 9,000 employees have risen to the occasion, whether they are working in the field or our facilities to maintain our critical infrastructure or working from home to support our operations and customers.

While our employees continue to provide reliable energy delivery, they have also improved our strong safety record, which remains firmly in the top quartile relative to industry peers. Employee safety and customer reliability is paramount to everything we do, and we couldn't be more thankful and proud of our teams across Fortis.

In terms of sales, UNS Energy and our Other Electric segment had the most exposure to changes associated with the pandemic. Consistent with last quarter, we experienced higher residential sales, partially offset by lower commercial and industrial sales. In total, third quarter retail sales at UNS and our Other Electric segment increased by 3%.

Record temperatures in Arizona contributed to higher sales at UNS. But excluding weather-related impacts, third quarter sales at UNS were still up 1% over 2019. For our Other Electric segment, sales were down 1%, driven by reduced tourism in the Caribbean.

Turning to Slide 7. Our teams continued to advance our 2020 capital plan. For the first 9 months of 2020, we invested $2.9 billion in our systems, which is $300 million higher compared to the same period in 2019. Our $4.3 billion 2020 capital plan remains on track.

Last month, we announced an ambitious corporate-wide carbon emissions reduction target of 75% by 2035 compared to 2019 levels. This new target enhances our commitments to a sustainable future and provides our customers and communities with cleaner energy. While the majority of the target will be met through generation resource changes outlined in TEP's Integrated Resource Plan, all of our utilities are developing plans to reduce their environmental footprints.

By 2035, Fortis expects to have approximately 99% of its assets dedicated to energy delivery and carbon-free generation.

Turning to Slide 9. Last month, we rolled out our new 5-year capital plan of $19.6 billion. The new plan reflects an $800 million increase from last year's plan and averages approximately $4 billion of annual investment in our utilities. The capital plan is virtually all regulated and consists of a diverse mix of highly executable, low-risk projects needed to maintain and upgrade our existing infrastructure.

Only 15% of our plan consist of major projects having total costs of over $200 million. The remaining 85% is comprised of smaller projects required to maintain safe and reliable service to our customers. 80% of our capital plan will be spent in our electric utilities across North America and the Caribbean and 20% in our gas businesses in British Columbia, Arizona and New York. This plan is expected to grow rate base by over $10 billion, from $30 billion in 2020 to over $40 billion in 2025. This yields a 5-year compound annual growth rate of approximately 6%.

In addition to announcing the fourth quarter dividend increase of 5.8% in September, we also announced the extension of our 6% average annual dividend growth guidance through 2025. We have increased our dividend for 47 consecutive years, and our strong growth plans and low-risk energy delivery business gives us confidence that we will continue this record.

Barry, this slide has always been your favorite, and I look forward to continuing to deliver on this exemplary track record as the next President and CEO and celebrating with you when we've reached the milestone of 50 consecutive years of dividend increases in 2023.

And I'd like to thank you, Barry, for your outstanding leadership and commitment to Fortis and our people over your 20-year career. Your accomplishments at Fortis have been extraordinary, and it has truly been an honor to be part of this incredible company under your leadership. You have been a great friend and mentor to me and so many on our team. On behalf of myself and all the employees at Fortis, I wish you all the best in your retirement.

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

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

Thank you, David, and good morning, everyone. Turning to Slide 12. Reported earnings per common share for the third quarter of 2020 was $0.63 compared to $0.64 for the third quarter of 2019. On a year-to-date basis, reported earnings per common share was $1.89 compared to $3.02 last year.

Year-to-date reported EPS for 2019 reflect a significant onetime net gain of $484 million from the sale of our 51% interest in the Waneta Expansion. Additionally, 2020 reported EPS reflect the impact of FERC's ROE decision received in May, including a favorable earnings impact of $27 million at ITC related to the reversal of prior period accruals.

On an adjusted basis, EPS for the quarter was $0.65, $0.01 lower compared to the previous year. During the quarter, EPS was tempered by a higher weighted average common share count associated with the 2019 equity issuance and lower earnings at ITC. Partially offsetting these items was rate base growth across our regulated utilities and higher retail sales at UNS Energy, primarily due to warmer weather.

On a year-to-date basis, adjusted EPS was $1.88 compared to $1.93 last year. While year-to-date EPS was impacted by similar items noted for the quarter, the overall decrease in EPS was also driven by regulatory lag at UNS Energy and COVID-19 impacts of approximately $0.05. The COVID-19 impact mainly relate to decline in tourism in the Caribbean and incremental pandemic-related costs.

We do recognize the dynamics and associated impacts of the pandemic could change at any time. Based on where we are today, we expect the impact to be manageable for the remainder of 2020.

Slides 13 and 14 provide additional details on the EPS drivers for the quarter and year-to-date.

First, on Slide 13, our U.S. electric and gas utilities contributed a $0.02 EPS increase for the quarter with our Arizona business and Central Hudson each contributing a $0.01 increase. In Arizona, Tucson experienced its hottest summer on record, which resulted in an approximate $0.03 EPS increase compared to last year. The increase was partially offset by higher costs associated with rate base growth not yet included in rates. TEP await a decision on its most recent rate case, which I'll discuss shortly.

In New York, Central Hudson increased EPS by $0.01, driven again by rate base growth.

In our Corporate and Other segment, the $0.02 EPS increase was mainly due to lower finance charges and operating costs.

Our Energy Infrastructure segment contributed a $0.01 EPS increase, driven by increased production at the Belize hydro-generating facilities due to higher rainfall. As you might recall, Belize had been experiencing drought-like conditions since late 2018. Third quarter production returned to levels in line with average production over the last decade.

EPS contribution from ITC was $0.02 lower compared to last year. Rate base growth was offset by a lower base ROE compared to last year and a lower effective tax rate in 2019.

And although not depicted on this slide, earnings for our Other Electric segment were flat for the quarter. Higher equity income from Belize was offset by lower commercial sales in the Caribbean.

And lastly, a higher number common -- number of common shares contributed a $0.04 EPS decrease for the quarter.

Turning to Slide 14. Adjusted year-to-date EPS decreased by $0.05 compared to the same period in 2019. As you can see on the far right of the slide, a higher weighted average share count associated with the advancement of our equity funding in late 2019 was the main contributor of the decrease, lowering EPS by $0.13.

Going back over to the left, our Western Canadian utilities contributed a $0.04 EPS increase, driven by strong rate base growth and lower operating expenses, partially offset by the impact of the PBR efficiency carryover mechanism recognized at FortisAlberta in 2019.

Our Energy Infrastructure segment contributed a $0.02 EPS increase, driven by increased hydroelectric production in Belize.

Next, a higher U.S. dollar to Canadian dollar foreign exchange rate favorably impacted year-to-date results by $0.01.

And at ITC, the $0.01 EPS increase was mainly due to rate base growth and lower business development expenses, partially offset by the impact of a lower effective tax rate in 2019 and a lower base ROE. While decisions issued by FERC in November 2019 and May 2020 are impacting the timing of earnings delivered by ITC as compared to 2019, earnings growth at ITC is expected to be generally in line with rate base growth.

In our Corporate and Other segment, the $0.01 EPS increase was mainly due to lower finance charges.

The $0.01 EPS decrease for our Other Electric segment was mainly attributable to lower commercial sales in the Caribbean and timing of purchase power costs at Newfoundland power, partially offset by higher equity income from Belize electricity.

Again, while not reflected on the slide, EPS for our U.S. electric and gas utilities was flat for the first 9 months of 2020. The favorable impact of record temperatures in Arizona, as Dave mentioned, was largely offset by higher costs associated with rate base growth not yet included in rates.

Rate base growth at Central Hudson was offset by an increase in operating costs associated with COVID-19. As a reminder, Central Hudson continues to track all COVID-19-related costs in conjunction with the generic proceeding initiated by the New York Public Service Commission. If regulatory recovery is achieved, this could be favorable to earnings in a future period.

As you can see on Slide 15, the bulk of our new 5-year capital plan is expected to be funding with cash from operations and debt issued at our regulated utilities. Approximately 6% of our $19.6 billion capital plan is expected to be funded through our dividend reinvestment program.

In conjunction with the release of our new 5-year capital plan, we did announce the reinstatement of the 2% discount on our DRIP. We expect participation will increase to approximately 20% annually upon the discount being reinstated.

We continue to remain strong liquidity with nearly $5 billion available on our credit facilities. Our utilities have issued over $3 billion in long-term debt in 2020, highlighted by the issuance of our inaugural green bonds from our 2 largest utilities, FortisBC and TEP, 2 of our larger utilities.

Fortis' funding plan and strong liquidity positions us well within our existing credit ratings as we continue to work through the COVID-19 pandemic and execute on our capital plan.

Now turning to updates on some of our ongoing regulatory proceedings. In Arizona, the TEP rate case continues to progress. Hearings concluded in June, and post-hearing briefs were filed in July and August. We expect a decision by year-end.

In August, Central Hudson filed a general rate application with the New York Public Service Commission as the current 3-year plan concludes on June 30, 2021. We expect the decision on this case, mid-2021.

In Alberta, we received a decision on the generic cost of capital proceeding in October. In the most recent decision, currently approved cost of capital parameters will remain in place on a final basis for 2021. The AUC is expected to commence a new proceeding in 2021 to approve new parameters for future periods.

And lastly, FortisAlberta awaits a decision by the AUC with respect to the Alberta Electric System Operators' customer contribution policy related to transmission investment, and we continue to expect the decision later this year.

With that, I'll now turn the call back to Barry.

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

Thank you, Jocelyn. So why invest in Fortis? It's simple. Fortis has a high-quality portfolio of utility businesses across North America, providing regulatory and geographic diversity. With our focus on energy delivery, coupled with our strong ESG profile, our growth platform is stronger than ever, supporting our 6% average annual dividend guidance through 2025.

To wrap up my last official earnings conference call, I'd like to close by saying it's been an honor and privilege to have served the Fortis group over the last 20 years. And to our employees, both past and present, thank you for all your contributions through the years to make Fortis the strong company it is today. To say I am proud of the success of Fortis would be an understatement.

Thank you, again, and I look forward to watching the company continue this success.

I'll now 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) Our first question comes from Robert Kwan from RBC Capital Markets.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

On the rollout conference call, Dave used the term gale force tailwinds and you talked a little bit more about what it means for potential regulated investment.

I guess what I'm wondering is, what's your appetite to take on unregulated investments? Can you talk about whether you do that standalone? Or would it have to be connected to your utilities? Do you see those types of investments as being enablers for your utilities? And if you're willing to take on unregulated, what types of contract terms would you be looking for?

David Gerard Hutchens - *Fortis Inc. - COO*

Yes. I'll just jump right in and answer that, Barry. Yes, those are things that we're always looking at, and we would obviously prefer the types of projects that are tied to our regulated utilities in one manner or another in a purely unregulated contracted energy infrastructure situation.

Obviously, we'd be looking for the right kind of terms to put together a deal that manages the risk of a project like that, things like Waneta, where you have the fully contracted offtake by a creditworthy counterparty come to mind.

So things like that, we'll always be looking at, but we're not going to go out and take any undue risk on projects like that.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

And geographically, would they need to be either in the footprint or contiguous? And would the -- those investments, would you want to see them being directly related to your utilities? Or could you get your head wrapped around being something that's stand-alone in a different geography if it makes sense contractually for you?

David Gerard Hutchens - *Fortis Inc. - COO*

I think all of the above. I think there are situations where stand-alone and geography outside of our utility footprints could make sense. That's obviously something we would have to look at very closely.

But if you look at our footprint, considering ITC covering the Midwest, UNS in Arizona, BC, Alberta, the Caribbean, New York, the Atlantic area, we have a pretty broad footprint. I can't imagine us probably not doing one within at least an area that we have that expertise.

Going out the -- going outside the areas where we have the expertise or really, especially when you're talking about development projects, you need to have the development expertise so that you can get it through the permitting process and regulatory processes in those areas.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Got it. If I can finish with the question on M&A. Historically, you've had a consistent message in -- for the last several years of really backing off larger scale transformational M&A. But just with the deal in your backyard, I'm just wondering if there's any additional commentary you can give.

And if you did decide to transact at some point. Do you have a different approach to utilities as it relates to gas versus electric in light of the ESG/sustainability themes that are out there in the market right now?

David Gerard Hutchens - *Fortis Inc. - COO*

That's a great question, Robert. And I know I've covered this a couple of times in conversations, both on the last call and with the individual conversations with analysts over the past a month or so. And M&A is obviously always a part of everybody's portfolio to look at from a fiduciary perspective. And that's something we'll continue to do and keep in the background.

But we're really going to be laser-focused on growing our utilities organically. And we think that we have a lot of opportunity to not only be successful in the 6% CAGR forecast that we've put out from a rate base perspective. But we think we have opportunities to grow that even more over the next 5 years.

So I would say from a gas and electric perspective, it all depends. It depends on the jurisdiction. It depends on the resources. LDC investments like our great BC gas business out in British Columbia, those are really solid, rock-solid investments.

And so we would look at everything but not shy away from gas or electric based on ESG. Obviously, that's a consideration, but that will also come down to valuations and put the particular jurisdictions that those assets are in.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

That's great. And Barry, all the best in retirements and congratulations on your last call having to deal with us.

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

Thank you, Robert.

Operator

Our next question comes from Ben Pham from BMO.

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

I had a question. There is some commentary around the Belize equity income benefiting the quarter and had the hydrology in nonregulated. So wondering if you can share some context on really what's driving the good results in Belize Electricity.

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

So Ben, maybe this will be the only question I'll answer today.

Just for everyone listening on the call, we have 2 businesses in Belize. One is our nonregulated hydro business that's called BECOL. And up until this last quarter, they were really struggling through some drought conditions that sort of got much better in the past quarter.

And then we also own 1/3 of the electric distribution utility in Belize. We used to own 70%. But as you know, a lot of history there, but we actually do own 1/3 of that. So we are picking up a share of our earnings from that business in the quarter. Jocelyn, in terms of the amount...

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

We've got $0.01 a share.

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

We've got $0.01 a share for the quarter so.

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

Okay. And then maybe a broader question, the Atlantic Loop project being kicked around by the federal government probably early days with discussions and what not. But is that something you guys get involved directly or even indirectly downstream through some of your utilities?

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

It's possible, Ben. I think it's very early days. You think about Atlantic Canada, we own the utility in Prince Edward Island. We also own Newfoundland Power. So we're going to have to be a part of this project, and we're open to that. And -- but it's still pretty early.

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

All right. Okay. Well, I'll leave it there. And also, Barry, I want to extend my congratulations. Your early retirement, the track record speaks for itself. I mean thanks for your candor, your discipline, your proactive approach. We'll surely miss you.

And David, congratulations. Just make sure you invite me to your VIP party in that 50-year dividend increase.

David Gerard Hutchens - *Fortis Inc. - COO*

Will do, Ben.

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

Thanks, Ben.

Operator

Our next question comes from Linda Ezergailis from TD Securities.

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

Before I ask my bigger picture question, I'm wondering if you have a sense of kind of what the load trends are looking for including weather for the balance of this year. And you mentioned that the COVID impact for the balance of this year is manageable. But I'm wondering what your thoughts are, including economic fallout of COVID for the outlook for 2021 modes in your key utilities?

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

So David, maybe I'll start. You can follow behind.

So Linda, fourth quarter is a bit of a strange quarter in a way because in Arizona, it's the shoulder period. So it's not typically a big quarter for that business. Although October was a little hotter than normal, I think. But even then, it's still -- in terms of load, it's down substantially. So I don't see -- it's a bit early, but I probably don't see weather having a big impact on the quarter.

It is worrisome about the trends in terms of COVID and the amount of cases and the real possibility of maybe at a minimum, targeted shutdowns and the possible impacts related to that.

I would say that's why we're so, I guess, fortunate to have these regulatory mechanisms that protect the revenues of the company. And when you add those together with the residential sales, we're 80-plus percent protected. So compared to many businesses, obviously, that's a very strong position.

So I think the impact on the company will still be muted even if there are really negative economic impacts in 2021. David?

David Gerard Hutchens - *Fortis Inc. - COO*

Yes, I'd just pile on, on a couple of points there, Barry, particularly down here in Arizona and what we've seen at our Other Electric utilities. And I think we'll see it more in the gas utilities as we go through the winter, but the increased residential sales volumes due to so many people working from home still, I think, will continue to offset that commercial and industrial reduction like it has for the first, I guess, 7 or 8 months of the pandemic.

So I would expect that sort of theme to continue on through 2021. And then it's really all about the commercial and industrial recovery and how the economy recovers, stimulus packages, et cetera. So that remains to be seen.

And as far as weather in Arizona goes, Barry is right. It was hot again in October as everyone is probably following the weather down here. But when we get into November and December, it -- the weather really doesn't become much of a factor because you can't really get too hot enough or cold enough to either turn on your air conditioner or your heater when it gets to those nice months you have down here, although it is quite pleasant to live here at that time.

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

So maybe moving on to next week. How might we think of any sort of changes in the White House administration and how that might affect FERC potentially?

There is an outstanding notice of proposed rulemaking on transmission incentives policy. I'm wondering at the very least if that might be delayed in terms of resolution that derailed entirely and wondering your thoughts on how priorities might shift, either with the current administration staying in the White House? Or any sort of change, if you can talk to some of those scenarios would be appreciated.

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

Maybe I'll just offer a comment, and David and Jocelyn, you can jump in as well. It's just, Linda, when we look at it, how -- we've been really focused in the business of focusing on cleaner energy, our sort of energy delivery business, transmission and distribution, we feel that we're positioned well, no matter who wins the White House, frankly. And we've been doing well under the President Trump's administration. We've been growing the business. We've been hooking up more renewables. The Arizona business has now laid out a pretty major move to shut down and exit coal and move to renewables and storage.

But that being said, if the Democrats win the White House, there is -- appears to be a real focus on maybe a faster adoption of renewables. That's going to drive renewable investment and transmission investment. So I think, overall, we're really positioned, probably one of the best in the sector to, to have good upside no matter what happens here.

I don't think you're going to see a lot of change out of FERC. I think that transmission is needed, right, for -- if we have a Democratic White House, they're not -- my belief is they're not going to slow down on making transmission less attractive.

So I really believe, if anything, they may accelerate some of the policies on transmission to make sure we can do some of the bigger lines, interconnecting the RTOs, solving some of the seam issues and all that. So I think we're really, really well positioned.

David, do you want to add some thoughts?

David Gerard Hutchens - *Fortis Inc. - COO*

Yes. I would add just a couple of things there, Barry. I agree 100% on the view from a FERC perspective. Because I think either -- whether -- either administration, when they come in, is going to be looking to stimulate the economy. And it may be slightly different how they do it.

If it's a Democratic administration, then pushing clean energy is, I think, going to really push what Barry was talking about, is the FERC to really address transmission incentives to be able to get the renewable energy, both built and then connected and delivered to eventually all of our customers. And obviously, having transmission and distribution companies across the U.S., that really is going to play into, into our hands quite well.

So I look at it from -- either way, this is almost like the heads I win, tails I win, where the stimulus that even a continued Trump administration it would bring in would also, I think, have to have a large part of it focused on clean energy.

And so I think either way we're -- like Barry said, we're situated perfectly to take advantage of that.

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

And maybe just 1 more question around your financing plans, recognizing that the capital markets could be volatile over the next little while and you've got the liquidity and the balance sheet to kind of weather that storm.

I'm wondering what factors might be in place for you to consider adjusting your financing plans, whether it be pre-funding in anticipation of accelerated opportunities or maybe even other considerations driving a decision to look at divesting certain less core assets, whether it be because of their ESG attributes, I'm thinking of maybe some that fall more into the heavier hydrocarbon side, et cetera.

But how might you think about either prefunding or, on the flip side, adjusting your financing plans if you have more investing opportunities?

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

Well, Linda, first, I'm going to restate that I'm just glad that we decided to advance our funding in 2019 for the plan that we see.

If the plan that we see unfolds, which we're pretty certain about, then I don't see any change in the funding plan right now with respect because we've done a significant piece of the equity funding for it, again, which I'm quite pleased about.

What could change it potentially is if we were successful in securing some projects, let's just say, the Lake Erie Connector Project or further projects in BC, yes, we -- as we get closer to those, if we see that they're getting over the finish line, then we will definitely be having conversations about how to incrementally fund those extra capital projects.

But I can't see, based on what we know today, any real change in the funding plan that you see. We're set up quite nicely with the progress that we've made on our balance sheet. And so I don't really see any change.

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

And will funding be the main driver of considering asset divestitures? Or might there be other considerations?

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

Linda, reality as a big public company, anytime -- David talked about M&A, obviously, not being a priority right now, focusing on organic growth. I think you said laser-focused on organic growth.

But if M&A did come back on the table, Fortis -- our mindset is that we really have to look at everything in terms of the funding for that opportunity. And that could mean some further divestitures. If that made sense, if the value at that point in time was attractive in the market.

When we sold the Waneta asset last year, it wasn't because we didn't like the asset. We love the asset. But when you're getting like 35x earnings for the asset, there was no question that we were going to sell it, right?

So it really is about what the need is, what the opportunity you're pursuing is and what's the conditions in the market at that point in time for all forms of capital.

So rest assured, I think Fortis will continue to be a good steward of capital, and we'll continue to look at all opportunities when we get the opportunity.

David Gerard Hutchens - *Fortis Inc. - COO*

Yes, Barry, I'd just add. Linda, this is exactly the situation we want to be in. We want our CEOs across the organization looking for growth opportunities so we keep Jocelyn busy on the funding side. That's what growing organically is all about. So hopefully, we keep her busy.

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

It sounds like you're going to be busy as well, David. And I want to echo everyone's congratulations to Barry on your retirement. Wish you all the best, and all the best to David, as you embark on this new adventure over the next little while for a great company.

David Gerard Hutchens - *Fortis Inc. - COO*

Thank you, Linda.

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

Thanks.

Operator

Our next question comes from Rob Hope from Scotiabank.

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

A bit of a broader question. Looking back over your 5 years as CEO, we saw some upside related to M&A. We saw some upside related to renewables. I guess the question is for David. When you look at the base plan you have in front of you, where do you see as the greatest opportunities for upside surprises versus the capital plan?

David Gerard Hutchens - *Fortis Inc. - COO*

I think probably the biggest upside is a couple of big projects that are sitting there on the back burner, like the Lake Erie Connector. I think the transmission integration, particularly around the corner next year, if there starts to be, as we talked about earlier, strong stimulus and clean energy, there'll be a lot of wind in the Midwest, large solar projects that need to be interconnected to the grid through ITC's system, big growth opportunities there.

And also in Arizona, we have laid out our Integrated Resource Plan that really looks over 15 years, and the vast majority of those investments are in the last 10 years, not in this first 5 years. But there are some things that can happen that can either accelerate that or allow us to invest in additional or earlier renewables and storage that can add to the plan as well.

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

All right. That's helpful. And then maybe just a more kind of regulatory focus question, with continued low interest rates benefiting the valuations of your utilities. But how do you potentially push back against the recession in ROEs that we're seeing there? Or could you see lower ROEs offset by a push for greater equity thicknesses through the businesses?

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

So Robert, my -- I guess my advice, I won't be here, but my advice is we just keep doing our jobs, right? We keep delivering cleaner energy, investing in our systems. And I think regulators have I realized that utilities in North America have been really progressing these big issues and making great progress, frankly.

We continue to see ROEs, especially in the U.S., being settled around 9.75% for the state ROE levels and equity thickness 50-plus percent. So there is -- there's a little bit of pressure, I guess, a few basis points here and there. But even in the last 2 or 3 months here, there's been cases settled like at 9.9% with 53%, 54% equity. So we're not seeing that massive pressure or anything at this point in time.

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

All right. And then, yes, Barry, thank you and congratulations on the retirement. All the best. And David, all the best in the future as well.

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

Thanks.

David Gerard Hutchens - *Fortis Inc. - COO*

Thanks, Rob.

Operator

Our next question comes from Mark Jarvi from CIBC Capital Markets.

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

So maybe this question is for David. Just curious with the DER, distributed energy resource order of FERC. Had that been in place when you guys did your IRP, how that might have impacted what you put in place for TEP? Or does it impact you guys in terms of how you're thinking about the decarbonization process in Arizona?

David Gerard Hutchens - *Fortis Inc. - COO*

Mark, it doesn't really impact us because we're not in an RTO. We are in the process of joining the California ISO's energy imbalance market, which is kind of like being -- having a toe in an RTO, but only in a very short term market.

So we -- it doesn't really apply to our jurisdiction now. But just the overall things that, that can provide or do from a market perspective, allowing the aggregation of distributed energy resources, whether it be electric vehicles, rooftop solar, you name it.

I think that overall, that's going to be good because it will add to the efficiency of integrating a larger number of resources into the system, which I think will end up flattening out our load curves over time, which I think for any utility is always a goal. Because the flatter your load curve is, the better cost you can provide to your customers.

So at the end of the day, if things like FERC order 2222 provides the market with better price signals, better competition that flattens that price curve and load curve, it's going to be good for everybody.

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

Okay. And then maybe we move to ITC. I mean you guys start some of the things like the seams study and whatnot integration, SPP and MISO. Just wondering what you guys think in terms of what could be the outcome for that, and whether or not that incremental outlook for new investments or what the role is, I guess, just for ITC and helping facilitate some of that work.

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

Linda, you there? Linda, did you get that question?

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

Yes. Yes, I did. Yes. Thank you, Mark. Yes, as I mentioned before, I mean, we see a lot of opportunity in terms of the -- both the generation queue at MISO in SPP, some of the recent sort of announcements by both SPP and MISO to study the seams issue.

I mean both RTOs, I guess, are suffering from the same problem, and that is they have over 200 gigawatts of generation that's in their queue. It needs access to the market. It's -- part of the problem is the process and how the study process is conducted.

But ultimately, the bigger problem is that there's just a lack of adequate transmission and transmission capacity. And so standing back, I think it's premature to specifically know or say how that translates in terms of potential capital investment.

However, I think it's also safe to say that there is no doubt, the only way to fundamentally solve the generation queue issue is to have substantial increase in transmission investments. So from that perspective, yes, definitely, I see that as kind of a one of those longer-term upside in terms of how we think about our investment in our footprint, both in ITC Midwest and certainly, Michigan as well as Kansas. And so we would see those all as positive.

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

Okay. And maybe just 1 other question is just on if there is a sort of a blue sweep in Biden administration and they move towards incentives, tax incentives for storage, like the incentives we had for wind and solar. Just wondering what you guys think the impact would be across some of your U.S. businesses, like Tucson Electric, Central Hudson and ITC in terms of any storage incentives, tax incentives?

David Gerard Hutchens - *Fortis Inc. - COO*

Sure. I'll jump in there. I think the storage incentives would be much preferred to incentives related to, say, solar and wind because it is something that needs to, to get moving a little bit quicker.

It would provide us, as I mentioned earlier, on things that could accelerate some of the investments that we're looking at from an Integrated Resource Plan perspective down here in Arizona. Some of those could be accelerated because batteries are getting cheaper, quicker through the use of incentives. So I think that could provide an additional growth opportunity for us.

Distributed storage, I think, is also a big play from that FERC 2222 conversation that we just had as well. By distributed storage. I mean, things that we can put within our distribution grid as investments of the utility that can balance the load on our distribution feeders, which we're going to need more and more of as we go forward.

So I think that it would be a very positive outcome if we had incentives related to storage.

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

Okay. And happy retirement, Barry.

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

Thank you, Mark.

Operator

Our next question comes from Elias Foscolos from Industrial Alliance.

Elias A. Foscolos - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Two questions that I've got. First is sort of following upon the theme of laser-focused organic growth. I'm going to try to word this properly.

What would be the probability or the chance that we could see 1 of the 2 major projects moving forward over the next year? And if you don't want to answer that, maybe what could we look at to give us a feel that, that might be -- that those might be progressing?

David Gerard Hutchens - *Fortis Inc. - COO*

Yes. It's probably a little early to comment on those too much, but when you're talking about over the next year and, obviously, the focus on stimulus across both North -- across North America, both the U.S. and Canada, some of those projects, I think, and I hope, will get pushed to the front of the queue there, particularly Lake Erie Connector being fully permitted and basically ready to go just needing contracts and for us to finish out how we're going to actually build that and have an off taker.

If we get that solved, then we're ready to go, and we got a 3-year construction period, and that drops right into the next 5-year capital plan.

So we're continuously looking, and we'll update those and keep you updated every quarter on the progress on those big projects that we have in the hopper. And I think it will be really interesting once we get past this election and see what the next administration's priorities are going to be, I think we'll have a better view of that come Q1 of next year.

Elias A. Foscolos - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Great. I appreciate that color. One, I'm going to make this maybe a micro question, but I'll ask it anyway. If we look at UNS and we try to separate the warmer weather from the costs associated with the increased assets, is it possible maybe in a cents per share or millions of dollars to quantify that?

David Gerard Hutchens - *Fortis Inc. - COO*

Jocelyn, do you want to answer that? I can, but I don't know if you want me to answer it.

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

Yes. I certainly can. When you look at lag, as we said, we have about -- we have USD 700 million of assets that are not included in TEP's rates.

So for the quarter, we said substantially the $0.03 was offset by lag. It was about $0.01 for the quarter. When you look at on a year-to-date basis, or if you look annually, I think if you do the math, you take your USD 700 million, you fund it 50%, you're earning 9.5% return, you can come up with probably $0.05, what I would qualify as regulatory lag.

So that's everything else remaining equal Elias, but that's sort of how we look at what the lag is for UNS.

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

Yes. The key, I would say, my only addition there is that every day it goes by, it keeps increasing, right? Because you are continuing -- under the historical test year approach, you're continuing to invest in the business.

And so this test year is 2018, right? So this is resetting rates and we do have some post-test year adjustments and stuff like that. But we need to get these rates in place, get our rate spot a little more current.

But even then, there will be some additional lag already because we've been investing capital since that period of time as well.

Elias A. Foscolos - *Industrial Alliance Securities Inc., Research Division - Equity Research Analyst*

Great. I appreciate that color. I'll leave it at that and closing off, wish both of you, congratulations on your respective paths.

David Gerard Hutchens - *Fortis Inc. - COO*

Thank you, Elias .

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

Thanks.

Operator

Our next question comes from Julien Dumoulin-Smith from Bank of America.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

And I should let go at the outset here, congratulations once more. Kudos, indeed.

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

Thank you.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

If I can here, just I want to go back to where we kind of started some of the conversations we've heard throughout, listen, we've seen NextEra get larger with respect to GridLiance, right, and really starting to push a bigger, call it, potentially mega transmission effort here. Obviously, that goes hand-in-hand with their specific renewable efforts.

How do you think about leveraging the ITC platform for potentially larger projects, right, outside of the traditional planning processes in SPP and MISO to look at something beyond admittedly what you're already talking about with Lake Erie?

And especially, if I can emphasize this, how does that fit, to the extent to which it does, with some of the allusions you made to earlier about investing or at least being open to contracted renewables as a further venue for growth?

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

So Julien, imitation is the best form of flattery, right? So the fact that the NextEra wants to own lots of transmission and see it as a big growth engine in the future just makes me smile because we do own the best damn transmission company in the U.S., and I'm really proud of that.

And so I -- but I agree with Jim Robo. I think transmission is going to be, to use a common term, huge going forward. So Linda has described some of the reasons why that is the case. And clearly, I can only marvel at the success of NextEra and all that.

But when it comes to transmission, we're far ahead and really proud of that. So yes, no, I agree.

GridLiance clearly has a collection of some small assets. And they will, I'm sure, do well under NextEra's leadership. And we will continue, David and Linda, I know, will continue to look for opportunities on transmission. But we have an amazing footprint. We have 16,000 miles of transmission in the U.S. Midwest.

I keep reminding folks, that's enough to go across Canada from here in St. John's, Newfoundland to Victoria, British Columbia, 5 times. You think about the massive piece of infrastructure that, that is.

So that's going to continue to drive ITC's growth and Fortis' growth for a long, long time into the future.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Got it. But maybe you can address just how -- to the extent to which you see opportunities beyond the typical -- the planning processes here to leverage larger projects on the transmission side to enable renewables, is that something you would see? Because don't get me wrong. I hear what you're saying about a huge opportunity. I'm just curious if that's something in the near future we should be watching for.

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

Linda, do you want to add some color?

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

Yes, sure. Thanks Julien, look, yes, I mean, we talk about it often in terms of our investor materials in terms of sort of where the sort of future or potential incremental capital opportunities lie. And look, I always say, if we want to move to more and more renewables, we have got to harvest the winds from where the wind blows and harvest the solar from where the sun shines. And those are predominantly 2 parts of the country that does not have significant transmission investment.

So if you look at a lot of the planning efforts that are ongoing, both within SPP as well as MISO, essentially, they all sort of come back to the same principle, and that is taking a longer-term outlook in terms of where are the future resources. And in part, that's informed by the significant generation queue in both of those RTOs. And sort of looking at what type of transmission investment infrastructure do we need in order to facilitate, interconnect all of those renewable resources.

And ultimately, I mean, the answer is not a couple of projects here and there. It's significant transmission projects that are essentially interconnected that essentially would build, if you will, the equivalent to regional transmission infrastructure.

So those, by definition, will be large transmission projects. And so we are very optimistic, given kind of the current situation, what I think is going to be a continual movement towards more and more renewables as well as much of the planning efforts and the dialogue and the discussion within the RTOs and FERC, as a matter of fact.

That opportunity is there. I think just as we know, transmission policies and changes take time. And -- but I don't think it's a matter of if it will happen. I think it's a matter of when it will happen. And so we are pretty confident that we will realize future investment in transmission around the context of large transmission infrastructure projects.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

Fair enough. And again, best of luck.

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

Thanks, Julien.

Operator

Our next question comes from David Quezada from Raymond James.

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

Maybe just one quick one for me. I understand there's an election coming up, the ACC in Arizona. I'm just wondering -- I mean it certainly seems like renewables are a bipartisan support kind of topic, but is there any potential for shifting priorities there depending on how those elections shape up?

David Gerard Hutchens - *Fortis Inc. - COO*

David, good to hear from you. Yes, I'll take that one, Barry. It's in my backyard here. I don't really think that there will be any loss emphasis on shifting to renewables, whether based on the outcome of the ACC election and who's in the Commission's seats.

I think at the end of the day, we're all pulling in the same direction. We've got energy rules that are really close to getting approved by the current sitting commission, which is 4 Republicans and 1 Democrat. And I think when we round the corner into next year, the energy rules that this Commission puts in place, and maybe they'll get them done by the end of this year, they're getting very close, will be both reasonable and doable. So that us as utilities in the state are able to manage a reasonable transition to a cleaner energy future here in Arizona.

So I don't see that changing, based on our Integrated Resource Plan to be really direct. Our Integrated Resource Plan won't change based on who's at the Commission. And I think they'll look at it the same and think it's a great plan and will approve it and help us execute it.

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

Excellent. David, and I'll echo everyone's best wishes to yourself and Barry going forward here.

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

Thanks, David.

David Gerard Hutchens - *Fortis Inc. - COO*

Thanks, David.

Operator

Our next question comes from Andrew Kuske from Crédit Suisse.

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

Obviously, you've had longer-term involvement in smaller scale hydro, but really stayed away from the mass renewables for quite a period of time.

So I'm just wondering if you get to this tipping point where the costs don't really need subsidies at this point in time, does that change the mindset, and you go more into renewables, wind, solar, other things? Or is your horse in the race really on the transmission side?

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

Go ahead.

David Gerard Hutchens - *Fortis Inc. - COO*

I'll take that one. Thanks, Barry. Yes, I think it's all of the above. I think we're going to focus on large renewables, and we'll have to focus on large renewables down here in Arizona. That's a key part of our Integrated Resource Plan.

When you think of adding -- we're going to have 1,000 megawatts of renewables on our system by the end of next year, need to add 2,000 more and -- or 1,400 megawatts of energy storage. I mean we are going to have to go big. We're hoping to get as much of that as possible into the regulated rate base.

And as we become more familiar and in -- not just building renewables but integrating them, we'll be looking at ways that we can do that across the rest of our utilities and, like I mentioned earlier, if there's a right opportunity for contracted energy infrastructure and renewable storage, et cetera, that's not something that's off the table.

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

Okay, great. And maybe just a nit picky question, whether it's for Jocelyn or for Linda, just on ITC. And I noticed that the OpEx is down. What's just happening on that front? If you could just give some color, that would be great.

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

Linda, why don't you offer your thoughts on that?

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

Sure. Yes, I mean our O&M expense is down, I mean we took some early actions early on in the pandemic when we saw the significant economic downturn back in March and April, when sort of, essentially, all businesses were down. As you know, our regulatory rate constructed a pass-through of all our O&M expense, and given the economic impact, certainly the impact it may have on our customers' rate pairs, we took early action to significantly curtail our O&M spending for the benefit of our customers.

And happy to say that we have -- I believe, year-to-date we're about $33 million reduction in our O&M expenses. And as you know, that's just a straight pass through. Every dollar we don't spend is a dollar we don't collect. But essentially, it has no earnings impact to offer ITC.

Operator

Our next question comes from Patrick Kenny from National Bank Financial.

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

Just on FortisAlberta, your main peer in the province is experiencing a step down in their capital budget, at least this year to the tune of about 25%. But looks like your capital plan is holding quite steady.

So maybe you could just share your thoughts on why your Alberta rate base growth profile, albeit 3% being the lowest CAGR in the portfolio, is still relatively resilient despite the continued pressure on the local economy.

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

Michael Mosher is on the call. Mike can offer some thoughts on that. I always remind people how large of a system we own in Alberta. We -- it's like 100,000 kilometers of line, a million poles. The system itself does require a significant amount of annual investment to make sure that it operates in a reliable way. So that draws a lot of that CapEx.

But Mike, can you offer your thoughts?

Michael L. Mosher - *FortisAlberta Inc. - President, CEO & Director*

Sure, Barry, thanks. And I would totally agree when just, while we have seen sort of reductions in customer growth, we still have customer growth. And as Barry said, we operate a massive distribution system, and we are just, obviously, the only distribution-only company in Alberta. So as we serve that last mile, we still have lots of investment to make and sort of modernizing our infrastructure.

We're still deploying a lot of sort of distribution automation schemes, are delivering significant reliability benefits to our customer, we've improved reliability by 25% over the last 5 years. So the capital that we have, while the growth has subsided, we still have quite a runway.

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

Okay, great. And then shifting over to BC, so following their provincial election, just wondering if you see the majority government really putting a shoulder into various clean energy policies going forward and, if on the back of that, we might see any near term CapEx upside related to whether you'd be investing in electrolyzers or perhaps other landfill infrastructure related to boosting RNG production.

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

Roger, I'm going to pitch this one over to you. But Pat just to, again, offer some comments, you know Premier Horgan is very familiar with our space and even when he was in opposition, he was the energy critic. And he understands the value of our gas distribution business we have in British Columbia.

So I'm hopeful that we can continue the work with the provincial government there on their clean energy pathway. And I know Roger and his team have got some really exciting opportunities that can really help get the economy going as well, and in British Columbia. Roger?

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

I think the sort of Barry's response, the trend for the NDP will be more in renewables. I think they were pretty clear in their election platform that they're going to be looking at the net zero target that's being talked about federally. So I don't think there's any rusting of the focus.

We've had some good discussions with the government over the last couple of years on advancing marine bunkering as a clean investment strategy for the marine sector. We are in discussions with them on real natural gas and hydrogen.

So I think from that perspective, it will be business as usual. I don't see any change from there. So I think we will have some opportunities.

As far as near-term capital, I think these things take quite a bit of time as far as the planning and the execution. So while we'll see continued and increased support for the trajectory we're on, I'm not sure it's near-term capital, but definitely over the long term.

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

Okay. And all the best in retirement, Barry. Congrats.

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

Thanks, Patrick.

Operator

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

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

We have nothing further at this time. Thank you for participating in our third quarter 2020 results call. Please 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, and you may now disconnect.
