Forward Looking Information

Fortis includes forward-looking information in this presentation within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (collectively referred to as "forward-looking information"). Forward-looking information reflects expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would and the negative of these terms and other similar terminology or expressions have been used to identify the forward-looking information, which includes, without limitation: forecast capital expenditures and expected funding sources for 2020 and 2021-2025; targeted average annual growth through 2025; the 2035 carbon emissions reduction target and projected asset mix; TEP's carbon emissions reduction target; forecast rate base and rate base growth for 2025; the expected timing, outcome and impact of regulatory decisions; the nature, timing, benefits and costs of certain capital projects, including , without limitation, the Wataynikaneyap Transmission Power Project, ITC Multi-Value Regional Transmission Projects and 34.5 to 69 kV Transmission Conversion Project, UNS Energy Vail to Tortolita Transmission Project and Oso Grande Wind Project, FortisBC Eagle Mountain Woodfibre Gas Line Project, Transmission Integrity Management Capabilities Project, Inland Gas Upgrades Project, Tilbury 1B and Tilbury Resiliency Tank and Advanced Metering Infrastructure Project; forecast debt maturities for 2021-2025; and additional opportunities beyond the capital plan.

Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally, including those identified from time to time in the forward-looking information. Such assumptions include, but are not limited to: no material adverse effects from the COVID-19 pandemic; reasonable regulatory decisions and the expectation of regulatory stability; the successful implementation of the five-year capital expenditure plan; no material capital project or financing cost overrun; sufficient human resources to deliver service and execute the capital expenditure plan; no significant variability in interest rates; and the Board exercising its discretion to declare dividends, taking into account the business performance and financial condition of the Corporation. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. For additional information with respect to certain of these risks or factors, reference should be made to the continuous disclosure materials filed from time to time by the Corporation with Canadian securities regulatory authorities and the Securities and Exchange Commission. All forward-looking information herein is given as of the date of this presentation. Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

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

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FTS.TO - Q4 2020 Fortis Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 12, 2021 / 1:30PM GMT

CORPORATE PARTICIPANTS

Charles A. Freni *Central Hudson Gas & Electric Corporation - President, CEO & Director*

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Benjamin Pham *BMO Capital Markets Equity Research - Analyst*

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

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

Matthew Weekes *Industrial Alliance Securities Inc., Research Division - Equity Research Associate*

Michael Sullivan

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

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

Ryan Greenwald *BofA Securities, Research Division - Associate*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Michelle, and I will be your conference operator today. Welcome to Fortis Q4 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, Michele, and good morning, everyone. And welcome to Fortis' Fourth Quarter and Annual 2020 Results Conference Call. I'm joined by David Hutchens, President and CEO; Jocelyn Perry, Executive VP and CFO; other members of the senior management team as well as CEOs from certain subsidiaries.

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

All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our 2020 annual MD&A. Also, unless otherwise specified, all financial information referenced is in Canadian dollars.

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

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

Thank you, and good morning, everyone. I'm happy to be hosting today's call from snowy St. John's as Fortis' new President and CEO following Barry Perry's retirement at the end of 2020.

Before we get started today, I hope you're all staying safe and healthy as we continue to manage our way through this pandemic. As we look back on 2020, it proved to be a successful year at Fortis on many fronts despite the challenges that the year presented. The value of our locally driven business model has never been more evident. Our teams across North America leaned on our shared values and each other to find the best solutions to navigate through the year.

We continue to demonstrate our commitment to safety while delivering essential service to our customers with the high level of reliability that they have come to expect, even with the pandemic and record weather impact at several of our subsidiaries. And we kept moving our business forward. We invested $4.2 billion in our systems, our largest annual capital spend to date, increasing our rate base by 8%.

On the sustainability front, we announced a corporate-wide target to reduce our carbon emissions 75% by 2035 compared to 2019 levels. We also saw the constructive resolution of key regulatory proceedings, including TEP's recent general rate application, which Jocelyn will speak to shortly. 2020 was a strong safety and reliability year for Fortis. In fact, we recorded the best safety performance in our history with safety incidents decreasing 25% over the prior 3-year average. This was a significant accomplishment during a pandemic and the execution of our record capital investment plan.

On the reliability front, we remain consistently in the top quartile relative to our Canadian and U.S. peers. This continued focus on reliability doesn't go unnoticed. Last month, 2 of our utilities, ITC and Central Hudson were presented with the Edison Electric Institute emergency response awards. ITC was recognized for its quick and safe restoration following the derecho windstorm in Iowa, and Central Hudson was recognized for its outstanding storm recovery performance following tropical storm (inaudible). We are incredibly thankful for the crews and customer service teams as this would not have been possible without their hard work and dedication.

In 2020, our management teams were able to tap into a vast network of expertise across the Fortis group to stay focused on what matters most to our employees, customers and local communities. Approximately half of our 9,000 employees transition to working from home while our field operations and critical on-site functions adapted operations to ensure we safely kept electricity and natural gas flowing to our customers. We supported our 3 million customers during the pandemic by offering flexible payment options, suspending disconnections, waving late fees and deferring scheduled rate increases. And in the communities we serve, we donated over $15 million throughout the year, including $5 million specifically for COVID-19 community support.

As we have noted in the past, our sales are trending consistent with the industry. Generally speaking, we continue to experience higher residential sales tempered by lower commercial and industrial sales. In 2020, 83% of our revenues were from residential sales or protected by regulatory mechanisms, with UNS and our other electric segments having the most exposure to changes in sales.

During the fourth quarter, retail sales at these segments increased by 1%. Favorable weather in Arizona contributed to higher sales at UNS. But excluding weather related impacts, sales at UNS were still up 2% over the same time frame in 2019. For our other electric segment, sales were down 3% in the quarter, driven by reduced tourism in the Caribbean.

During the year, our utilities invested $4.2 billion into our energy systems, this record level of capital was $400 million higher than 2019, increased rate base by 8% and represents investments to support delivering a cleaner energy future. Notably, we invested $500 million during the year in the Oso Grande wind project in Arizona. This 250-megawatt wind generation facility is owned by Tucson Electric Power and will complement their existing solar generation portfolio. Commissioning is expected to be completed in the first half of 2021.

In 2020, we established a corporate-wide carbon emissions reduction target of 75% by 2035. All of our utilities will contribute to the corporate-wide target with the majority being underpinned by TEP's integrated resource plan. This plan calls for an additional 2,400 megawatts of wind and solar and 1,400 megawatts of energy storage to support the closure of all of TEP's coal generation assets by 2032. TEP alone will almost quadruple the current renewable energy generation capacity of Fortis by 2035.

Additionally, CUC's integrated resource plan calls for adding 170 to 200 megawatts of solar. By 2035, we expect 99% of our assets will be dedicated to energy delivery or carbon-free generation. We remain focused on continuously improving our already highly ranked ESG profile. From a governance perspective, we are consistently recognized for our practices that are grounded in local leadership and independent board oversight. In 2020, we launched our corporate-wide inclusion and diversity council, signed the Black North Initiative and continued our focus on gender diversity. Today, 60% of our utilities have either a female CEO or Board chair, and women represent 40% of the Fortis Board.

Turning to Slide 11. This past September, we rolled out our new $19.6 billion 5-year capital plan, reflecting approximately $4 billion of annual investment in our utilities. Virtually all of our planned investments are regulated and consists of a diverse mix of highly executable, low-risk projects needed to maintain and upgrade our energy infrastructure. The capital plan is expected to grow rate base from $30.5 billion in 2020 to over $40 billion in 2025, an increase of $10 billion or nearly 1/3. This yields a 5-year compound annual growth rate of approximately 6%.

Within our portfolio of utilities, there are several opportunities to expand and extend investments across our businesses, including connecting renewable energy resources to the grid, adding LNG infrastructure, increasing investments in energy efficiency and expanding low carbon transportation. Additionally, the Biden administration has proposed a sustainable infrastructure and equitable clean energy plan calling for net zero emissions in the U.S. by 2050 and carbon-free power from the electricity sector by 2035. This could accelerate capital investments at our U.S. utilities through transmission interconnections of renewables at ITC, clean generation and energy storage in Arizona and electric vehicle infrastructure in the 9 U.S. states we serve today.

In the fourth quarter, we increased our quarterly dividend by 5.8%. This marked 47 consecutive years of dividend increases. With our low-risk energy delivery business and strong growth outlook, we remain confident in our ability to execute on our 6% average annual dividend growth guidance through 2025.

I will now turn the call over to Jocelyn for an update on our fourth quarter and annual financial results.

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

Thank you, David, and good morning, everyone. For the quarter, adjusted net earnings was $320 million or $0.69 per share, $43 million or $0.07 per share higher compared to Q4 2019. For the year, adjusted net earnings was $1.2 billion or 7% higher than 2019. Adjusted earnings per common share was $2.57. This represents a $0.02 increase compared to last year, despite the significant equity issuance at the end of 2019.

I'll get into the details of the drivers of earnings and EPS growth on the next 2 slides. Slide 15 highlights the EPS drivers for the quarter. Starting with our largest utility, ITC contributed a $0.05 EPS increase for the quarter, the increase related primarily to rate base growth and timing of earnings associated with the November 2019 FERC ROE decision. Our U.S. electric and gas utilities contributed a $0.03 EPS increase for the quarter. Our Arizona business contributed a $0.02 EPS increase driven by higher retail sales and an increase in the market value of certain assets held in trust to support retirement benefits. The increase was tempered by rate base growth not yet included in rates and incremental credit losses associated with the pandemic.

In New York, Central Hudson increased EPS by $0.01 driven by rate base growth. And the $0.02 EPS increase for our other electric segment was mainly attributable to timing of purchase power cost at Newfoundland Power.

Our energy infrastructure segment contributed a $0.02 EPS increase, driven by production at the Belize hydroelectric generating facilities due to higher rainfall, as you might recall, Belize experienced drought light conditions for most of 2019. The $0.01 EPS decrease for our Western Canadian utilities was mainly due to timing of operating expenses at FortisBC and in our corporate and other segment, the $0.01 EPS decrease was mainly due to a lower income tax recovery, offset by lower finance charges and operating costs. And lastly, a higher number of shares contributed a $0.03 EPS decrease for the quarter.

Now to Slide 16. Adjusted 2020 EPS increased $0.02 to $2.57 compared to 2019. EPS contribution from ITC was $0.06 higher compared to last year, driven by strong rate base growth as a result of record capital investments of $1.2 billion made in 2020, a higher base ROE and lower business development expenses also contributed to the increase. Our U.S. electric and gas utilities contributed a $0.03 EPS increase compared to last year.

A $0.02 EPS increase in Arizona was driven by higher retail sales, mainly due to favorable weather. And as you recall, Tucson experienced its hottest summer on record in 2020. The increase was offset by similar items we noted for the quarter, including regulatory lag and incremental pandemic-related costs.

The $0.01 EPS increase at Central Hudson was driven by rate base growth, offset by an increase in costs associated with COVID-19. Central Hudson continues to track all COVID-19-related costs in conjunction with the generic proceeding initiated by the New York Public Service Commission. Our Western Canadian utilities contributed a $0.03 EPS increase driven by rate base growth offset by the impact of the PBR efficiency carryover mechanism recognized at Fortis Alberta in 2019.

Our energy infrastructure segment contributed a $0.03 EPS increase driven again by increased hydroelectric production. And the $0.01 EPS increase for our other electric segment was mainly attributable to higher income from Belize Electricity, offset by lower commercial sales in the Caribbean.

Next, a higher U.S. dollar to Canadian dollar foreign exchange rate favorably impacted annual results by $0.01. Lastly, a higher weighted average share count from the advancement of our equity funding in late 2019, lowered EPS by $0.15. As we look across all segments in 2020, COVID-19 impacted annual EPS by approximately $0.05. This mainly related to the decline in tourism in the Caribbean as well as incremental pandemic-related costs at UNS Energy and Central Hudson.

As you can see on Slide 17, the bulk of our 5-year capital plan is expected to be funded with cash from operations and debt issued at our regulated utilities, with the remaining 6% funded through our dividend reinvestment program. With the recent reinstatement of the 2% discount on the DRIP program, participation has increased to approximately 35% consistent with 2019 levels. This level of participation provides additional funding flexibility for Fortis. We continue to remain strong liquidity with over $4 billion available on our credit facilities. Our utilities were active in the debt capital markets in 2020, taking advantage of favorable pricing and issuing approximately $3.5 billion of long-term debt, including the issuance of green bonds at both FortisBC and TEP.

Our funding plan and strong liquidity positions us well as we continue to work through the pandemic and execute on our capital plan. In 2020, we achieved a cash flow to debt ratio just over 12% and a holding company debt ratio of 34%. Back in 2018, we indicated that U.S. tax reform was expected to temporarily impact our cash flows and credit metrics. Since 2018, our cash flow and holding company debt ratios have improved by 170 and 500 basis points, respectively. These improvements mainly reflect actions we took in 2019, including the accelerated equity issuance and the sale of the Waneta Expansion, along with the strong credit profile of our regulated utilities. And even through the pandemic, we've maintained a strong credit profile as our utilities manage cost and regulatory mechanisms that serve to stabilize cash flow and earnings have operated as expected.

In addition, a number of our key regulatory proceedings have concluded with constructive outcomes. Overall, our credit metrics, coupled with Fortis' low business risk profile positions us well within our existing investment-grade credit ratings.

Turning now to the recent changes in the U.S. dollar to Canadian dollar. About 2/3 of our earnings and similar portion of our 5-year capital plan come from the U.S. and as a reminder, our 5-year capital plan is currently based on a foreign exchange rate of 1.32. To help mitigate foreign exchange exposure, we do use natural hedges, including approximately $2 billion in U.S.-denominated corporate debt and forward foreign exchange contracts. With our hedging strategy, every $0.05 change in the U.S. dollar to Canadian dollar exchange rate is expected to impact annual EPS by approximately $0.06 on average and would result in a $400 million change in our capital 5-year plan. On balance, we remain comfortable with our hedging strategy, but we'll continue to monitor exposure going forward.

As David mentioned earlier, 2020 was a busy year as many key regulatory proceedings concluded. Most recently, the Arizona Corporation Commission issued a constructive rate order in the Tucson Electric Power general rate application filed in early 2019. Overall, we were pleased to bring the rate case to conclusion at the end of 2020. The new rates, effective January 1, reflect the requested rate base of approximately USD 2.7 billion, equity thickness of 53% and allowed ROE of 9.15% plus a return on fair value increment of 20 basis points. TEP also received approval of 2 new adjusters. The first is a tax expense adjuster mechanism and the second is the transmission cost adjuster, both helped to reduce regulatory lag at the utility.

Now turning to an update on some of our ongoing regulatory proceedings. At ITC, the notice of proposed rulemaking on transmission incentives remains outstanding. This item was on FERC's January open meeting agenda but was deferred with no clear visibility on timing of next steps. In August, Central Hudson filed a general rate application with the New York Public Service Commission as its current 3-year rate plan concludes on June 30, 2021. Settlement disclosed -- settlement discussions commenced last week, and we expect a decision in 2021. Last month, the British Columbia Utilities Commission announced that a Generic Cost of Capital Proceeding will be initiated in the spring for all regulated utilities in BC, including our gas and electric businesses, to set cost of capital parameters effective January 1, 2022.

In Alberta, we received a decision on the 2021 Generic Cost of Capital Proceeding, current cost of capital parameters remain in place on a final basis for 2021. In December, the AUC initiated a new proceeding to establish post-2021 parameters with the decision expected by the end of the year. And lastly, in November, the AUC issued a decision on the Alberta Independent System Operator tariff application, resulting in Fortis Alberta retaining approximately $400 million in transmission-related investments. A new proceeding was initiated by the AUC to assess whether the customer contribution policy should be modified on a prospective basis for future transmission related investments. A decision is expected in the second quarter of this year.

And with that, I'll now turn the call back to David.

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

Thank you, Jocelyn. Our 2020 results are a testament to our business model and our people, demonstrating what we can achieve when we come together as one strong company. Personally, I'd like to express my sincere thanks to our 9,000 employees. They have shown tremendous commitment and dedication in serving our customers throughout this pandemic, and I'm proud to be part of this team.

As we move forward, safety, affordability and reliability will continue to be front and center in everything we do as we grow our premium energy delivery business. With the tremendous potential in our company, coupled with our low-risk growth platform and strong ESG profile, I couldn't be more excited to be leading Fortis.

I will now turn the call back over to Stephanie.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question will come from Ben Pham from BMO.

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

I know you mentioned the $0.05 impact from COVID-19. Does that include the expected impact of the delay in the TEP rate case? And if not, are you able to directionally quantify what that impact was for 2020?

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

Yeah. No, that doesn't include the TEP delay impact. And Jocelyn can fill in the second half of that question.

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

Yeah. No, Ben, it just includes the, I guess, the lost earnings in the Caribbean due to tourism and also credit losses, mainly for Central Hudson and UNS. The TEP rate case, yes, was effectively delayed because of COVID, but it was substantially offset by the hot weather that they had. So we didn't classify that TEP was disadvantaged because of COVID because they made up for it in warm weather.

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

Okay. So that -- so if you look at the impact of warm weather, that gives you actually what the impact of the TEP rate case was then?

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

Yes, for sure. I mean they was delayed because of the pandemic. And so yes, you are right. It is a COVID-related impact for TEP. It's just that it was offset by the fact that they had obviously, the hottest temperatures on record.

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

Okay. I know from your slides, you mentioned 99% assets regulate, and that's your target for 2013 -- 2035. What is your appetite now for nonregulated assets in this environment, whether it's EV vehicles, hydrogen, renewable assets, nonregulated. I mean, is there any appetite for you guys in this market?

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

Yes, Ben. So yes, so I think there's a lot to unwrap there in that question because there's a whole bunch of different sort of unregulated investments that you listed there. When you think about hydrogen or some maybe even renewable natural gas that we might be doing out -- that we could be looking at doing out in BC. There are some things around the edges of our normal business that we continue to look for and look at. Obviously, our priority is executing that $19.6 billion capital budget. And then also looking at how we can extend and expand that, based on the drive for more renewables in the U.S. and across Canada.

So our main focus is execution on the regulated rate base that we have and adding to it where we can. As far as unregulated assets, we will look at doing them if they make sense, right? They have to have the right risk and return. We have to have the expertise in being able to execute it. If those things match, then we'll look at doing it, other than that, we won't.

Operator

And your next question will come from Robert Kwan from RBC Capital Markets.

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

Just wondering if you've got some thoughts on the early actions of the Biden administration and the impact of your utilities, including any commentary on FERC policy and how you think that might play out?

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

Yes, Robert. Yes, this is obviously a big item of conversation across our industry. We're trying to all figure out what all of the all the executive orders mean, the policy changes, the new commissioners at FERC, the new chair at FERC. We -- I think we all get the fact that directionally where this is going. Obviously, with the Biden administration coming in very, very focused on reducing greenhouse gases, a very strong push towards electrification of things like transportation. It means that there's going to be a lot more in our electricity sector that's going to need to be invested in over the next years. I mean when you think about not just the regular transition that has already been laid out by so many utilities from coal to renewables, including us in Arizona.

Now you're looking at not just that transition, particularly in ITC's footprint, there's big utilities in their footprint that are looking at doing the same thing, not just that transition from coal to renewables, which needs renewables. And of course, then needs the transmission to connect those renewables to where the customers are. But also, it's going to be driving a lot of electricity demand as we look at electrification efforts. So we're -- directionally, we know it's going up. It's really hard to determine at this point what the magnitude and the speed of those changes will be. And that's what we're working hard on doing across our different jurisdictions. This could be an acceleration of the transition plan that we have at TEP from coal to renewables as you'll recall, and we've talked about quite a bit. We have a lot of investments, $4 billion to $6 billion level of investments that we would need to do in order to get to that transition and most of that is outside the 5-year capital plan.

So maybe some of the things, some of the incentives that the Biden administration does brings that closer in. Maybe there's incentives that can go for the impacted communities where those power plants are that could allow us to accelerate some of that stuff. Boy, the big EV push. There's a conversation on social cost of carbon, where is that going to go? So we can't quantify it, unfortunately, at this point, Robert, but we are working on figuring out how that will drive our business going forward.

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

Anything specific to the FERC policy?

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

Yes. On FERC policy, I mean, I just actually was reading an article last night, an interview with Chairman Glick. And I think that article is saying all the right things. I won't interpret it for you, but I mean, it's out there, it was an SNL article. But in that interview, he was talking about the importance of things like incentives, obviously, and trying to figure out how we get power lines permitted. We're back to having the conversation again in the U.S. of -- not just the transmission that we needed, but how can we build it better. And back in the day in the Energy Policy Act of 2005, there was a requirement for the Department of Energy in the U.S. to create these national interest corridors. I think that thing has to be kick-started again. So that we can figure out how to build the bigger backbone that our transmission system is going to need to interconnect markets and to go long distances to connect the regional renewable energy resources to where we need them.

So I think that, that policy is all going in the right direction. It's going to be a democratic-led FERC. I'm sure they'll end up with a democratic majority later this year. And in that, they're going to have to be addressing the policy and the incentives that are needed to increase transmission. That's -- everybody is aligned with that thesis. And that's aligned with the Biden energy transition plan. So I expect to see some good things coming out of FERC on a going-forward basis.

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

Great. And I guess, maybe just to finish, Dave, now that you're in the CEO chair while the valuation differentials have narrowed, just what are your thoughts on payout ratio and leverage? And I guess, ultimately, do you view the Canadian utility stocks or the U.S. utility stocks as your peers?

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

So yes, we look at them both, right? I mean we obviously have both Canadian and U.S. utilities. And from a peer perspective, we look at everybody. And my goal as CEO is for them to all be looking at us, right? So at the end of the day, we want to be the peer that they're looking at. How are they doing so well? How are they getting the trading multiples they are? Because we have the right story from a growth perspective. We have the right story from a greenhouse gas ESG perspective. We got to get out there and tell that story more. So I'm not necessarily as concerned comparing us to them. I just want to make sure that we're looking behind us to see them.

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

Just any specific comments on payout leverage?

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

Say that again?

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

Just any specific comments addressing payout ratio and leverage?

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

Yes, Robert, with payout ratios, what we've said is that we're comfortable in the 65% to 75% payout ratio, which is pretty consistent with the Canadian utilities, the Canadian utilities are higher and U.S. ones are a bit lower. We've said around 65% to 75%, we're comfortable with. And as we look, like David talked about with respect to the capital plan that we have and the opportunities that we have in front of us, we're comfortable with that range.

Operator

And your next question will come from Rob Hope of Scotiabank.

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

Just one question for me. How are you thinking about the potential Arizona legislation that would take away generation planning away from the regulator, but it's kind of more in the hands of the policymakers. Would it be fair to say that your generation investments in the region may not be altered given that it's not necessarily being driven by, we'll call it, the regulator-stated goals but your own internal economics and where you want to take that business?

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

Yes, Rob, you nailed it in your note this morning. It actually has nothing to do with what we're doing. Because when we put our integrated resource plan out at Tucson Electric Power, it was all about what we needed to do from an economic standpoint, from affordability, clean energy, reliability. We got everybody in the room when we developed that integrated resource plan. It was what our customers, our community, our regulators, the consumer advocates, this was something that we all circled on and said, that's the right plan. It had nothing to do with the energy rules because there weren't any energy rules at that time. And it was substantially greater than the existing renewable portfolio standard that exists in Arizona.

So -- which is actually a very low standard. It's 15% by 2025. We've already passed that. So in my mind and our team's mind in Arizona, it doesn't matter. It was -- we built that plan and stood it up before the energy rules. This is all about us executing on that plan because it's the right plan.

Operator

And your next question will come from Michael Sullivan from Wolfe.

Michael Sullivan

Yes, I wanted to circle back to the FERC transmission question there. I know it's hard to really predict. But as you mentioned, there's been a lot of talk around it. Just any thoughts on timing? Is it going to take into when we get a democratic majority at FERC? And then how does it get effectuated? Is it from FERC? Is it something from higher up within the Biden administration? Just maybe a little more context there would be helpful.

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

Yes. That's a great question, Michael. The timing on what can be done and what will be done is obviously still up in the air. I think the Biden administration wants to move things as quickly as possible. So we're hoping it's quicker. But you got to remember, too, that as you set policy, it takes a long time for it to basically roll out through the industry. We are hopeful that at the end of the day, we see some action on the big things, right? There's things that we're looking for from FERC in order to streamline things like planning and citing that I mentioned on the National Corridor conversation, looking at how we better manage cues within the RTOs for interconnecting renewables, cost allocation is always a big deal incentives. All of those things have to be addressed.

And frankly, in our mind, the sooner, the better. Because like I said, we know the direction. We'd like to see, one, get the pace of that direction; and two, what's the magnitude for us and how do we get in there. And that's why we're working behind the scenes and pushing to get some of these things done through the various trade groups as well.

Michael Sullivan

Great. And then my other question was just on -- I know you guys don't give official guidance for 2021. But just any help on key drivers we should be thinking about. I think the earnings growth has been relatively muted in recent years. And now that you've got this Arizona rates in effect, should we be expecting a pretty material step up? Any other context you can give around that.

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

Well, Michael, you're right, we don't give earnings guidance. So my fallback is always that over the long term, earnings should proxy where our rate base is over the long term. But it's not linear, as you say, with things like the UNS rate case that was concluded. They had a decent year, mainly because of weather. So as they head into next year with new rates, then I would say that we all have to make our own assumptions with respect to weather because it's tough for us to sit here and make those calls.

But I would say that all of our utilities have cleared the slate on certain regulatory proceedings. There's no cost of capital hearing for 2021 with the exception of Central Hudson, and I don't expect any material change there. So I would say all utilities are set up for good growth. And we've also level set with respect to the equity that we've done because that was 2019. So no major drag there from an equity perspective. So we're looking forward to 2021.

Operator

And your next question will come from Mark Jarvi from CIBC Capital Markets.

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

Maybe -- yes, come back to the transmission incentive. I don't want to beat a dead horse, but just that article that came out last night you referenced, David. And just maybe just reconcile what we think in terms of prior dissent from Chairman Glick around participation adders, but supportive of -- but he seems like supportive of incentives. So if you had to stand here today when you kind of square it all up, is your view still that get upward bias on the total incentive at ITC?

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

Yes. So you guys aren't liking my answers, so I'm going to kick this one over to Linda to provide a little bit additional color because she's obviously got this topic front and center. Linda -- obviously, Linda is our CEO of ITC.

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

Yes, great. Thanks, Dave, and thanks, Mark, for the question. Look, I would put it in sort of this context. I mean, clearly, we don't know, right, in terms of exactly what Glick may specifically want to do with respect to the NOPR. And certainly, I think as time moves on, we'll learn a little bit more. In terms of at least what next steps are with respect to the timing of the NOPR and ultimately kind of the decisions therein.

What I guess I would say or what I would emphasize, I mean, I know Glick has been certainly public in his comments in the past, he's probably not the biggest fan of specific ROE incentive. But I would say, Glick clearly understands the need for investment in transmission infrastructure, particularly to facilitate renewables. And so my belief is, and I remain very optimistic in terms of the kind of the actions that FERC will take to continue to drive investment in transmission and the behaviors that will drive investment in transmission. And while it may not be what I would say, it could modify slightly from sort of the typical all in ROE adders to -- really what I think ultimately is really going to be making the transmission pie bigger.

And so I think, as Dave did a nice job alluding to, we're going to see the transmission landscape and the transmission pie get significantly bigger because I think everyone recognizes that transmission is a key enabler to the Biden, kind of, clean energy plan. And so may it be, will it be exactly what we've seen in the past, we don't know. But what I do know is that Glick does understand both the role of incentives and driving investment in transmission as well as, as I think Dave alluded to, the Energy Policy Act, he's mandated, he's required to offer incentives for transmission investments.

So obviously, we'll have to take a wait and see approach to see what comes out of there. But I am more optimistic than ever in terms of sort of, I think, how the landscape is evolving. I've never heard, I think, so much focus and conversation about sort of the central role that transmission plays in meeting our future decarbonization goals. And the transmission incentives NOPR plays a huge role in that. So I am extremely optimistic about how that NOPR can help drive future investment and transmission and, frankly, make the transmission pie realize both quicker, faster sooner than it otherwise maybe could have been.

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

Yes. Mark, I would just add. I know we're talking about the same article, so it seems that you read it. But I think it was clear, and I'd hate to quote an article on our earnings call, but it said that Chairman Glick said that, the incentives in the NOPR are the reason that he dissented from it before is that it didn't go far enough to incentivize lines built pursuant to state and federal policies. Well, guess what, we're looking at a whole bunch more state and federal policies in order to get renewables where they need to be, in order to get transmission built, how it needs to be to meet the policy requirements of states and federal governments and that to me was a real positive comment.

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

Got it. Follow-up question maybe just on Central Hudson. And just it sounds like you entered some settlement discussions. You guys have time lines and do you have a sense on whether or not it's a pursuit of a multiyear rate plan or would you go shorter term?

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

Sure, Michael, or Mark, sorry. We're going to turn that over to Charlie Freni, who is the CEO of Central Hudson. He's on the line to answer that one.

Charles A. Freni - *Central Hudson Gas & Electric Corporation - President, CEO & Director*

Settlement discussions have just begun. So at this point in time, we're optimistic that we'll work through it and hopefully come to a settlement before the July time frame. But we have been -- it has been signaled to us that probably be a process that will take more than 11 months. And typically, we have a make-whole provision if it goes beyond the end of our rate year. Whether it's multiyear or not, I mean that does come out of the settlement conversation as well. It's quite likely it will be a multi-year, that's generally is part of the conversation.

Operator

And your next question will come 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*

I guess the question is really about alternative capital pools, and it's something that's produced in the past. But when we look at the Duke deal with GIC, Duke Energy in Indiana, how do you think about that from a standpoint of potential, the use of services and value in your portfolio as it exists today or just for capital deployment in the future?

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

So let me sum that up. I don't think Jocelyn was able to hear the question. Looking at alternative capital pools like GIC and Duke and bigger picture of how we look at that capital going forward.

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

Yes, Andrew, we're always looking at that. Every time we go through our capital planning exercise. We've often said that everything goes back on the table. So it's interesting that these deals are being done to, I guess, delay any further equity issuances, which, for the right price, I think it's a fair thing to do. I mean we clearly went to market with our equity requirements in 2019. So we're set up nicely for our 5-year capital plan. But listen, we can grow even further from where we are today, then everything goes back on the table. And all of those things are things that we consider every time we look at funding options.

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

Okay. That's helpful. And a bit different direction for my second question, it really relates to cyber and just cybersecurity. And obviously, that's an important industry issue. But in the pandemic environment with, I think, you said half your employees effectively working from home. How has the cybersecurity changed over the period of time line?

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

Yes. Yes, definitely. Our attention on -- from a cyber perspective was already ramping up extremely fast. I'll say, even over the past more than 5 years. The conversations that we have in boardrooms, the conversations we have within our utilities, having CIOs at our large utilities, having a Chief Information Officer at Fortis to help coordinate all those efforts. And then to obviously add the complexity of having almost 4,500 people working from home over the past year. All of those things have amped up our focus on cybersecurity.

And then of course, there's the there's world events, too, that obviously make you pay more attention to things, particularly us. We do have the criteria, the critical infrastructure that we have meets the criteria for federal government requirements, and so we keep a close eye on that. But we have to continuously go above and beyond that because there is nothing more critical than our infrastructure. Because at the end of the day, our infrastructure is what provides everybody else's infrastructure, the ability to work. If you don't have the energy flowing then you will not have an economy flowing. So it is extremely important and right in the center of our bull's eye from a strategy conversation.

Operator

And your next question will come from David Quezada from Raymond James.

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

My first question here, just on Lake Erie Connector. I'm wondering if you had any engagements with the Ontario government recently and what kind of time line or hurdles you'd be looking at over the next year just in terms of potentially moving forward there?

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

Yes, I'll turn that over to Linda because she's the one who has her finger on the pulse on that project. Linda, hopefully, you heard that question. It was about the Lake Erie Connector and status there.

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

Yes. I did. And thanks, David, for the question. Yes. I mean we're in continual engagement with the Ontario government as well as the IESO with respect to the Lake Erie Connector project. And while I don't have any specific kind of status update that certainly I can share. I can continue to say that we continue to remain optimistic based on sort of what I would say are the conversations, the tenor of those conversations and the progress within those conversations.

At this time, I'm not able to specifically say time line-wise, when we will have any type of meaningful update, but I would say things remain optimistic for us.

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

Excellent. And then, David, maybe just one for you. I guess you've been in your seat now for about 6 weeks. I'm just curious how you are planning to allocate your time over the next, I don't know, 100 days, say, and what will be your initial focus is now that you're in your role?

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

Yes. Thanks, David. It's actually great to be here in St. John's, and I've been here for -- as of today, 30 days. So it was great to get here and do my quarantine period, which you have to do when you come into Canada and particularly into St. John's. So I was glad to get in the office and be able to meet with the team and have some good conversations. Our focus is beefing up the strategy that we currently have. We are very focused on our organic growth strategy. And we basically have a whole lot more opportunities that we see that I mentioned earlier coming from the push towards a clean energy transition.

It's all about our business. It's all about what we do. When you're looking at electrification, it needs renewables, it needs transmission, it needs distribution, that's the business that we're in. When we're looking at growing the demand, that's a great story for us. When we're talking about electrification of transportation, that's a huge story for anybody who has anything to do with electrons. That's a way for us to pick up wallet share of our customers and reduce their overall net bills.

So that's the focus that we have is to look now, I think, in a much more target-rich environment for investments on a going-forward basis and a growing environment from a, say, a use per customer basis. I think that's been my focus. It's been the team's focus, and we're really getting after it.

Operator

And your next question will come from Matthew Weekes, Industrial Alliance.

Matthew Weekes - *Industrial Alliance Securities Inc., Research Division - Equity Research Associate*

I just had one quick question about sort of the collection of COVID-19-related costs going forward. So you're tracking those costs in accounts and sort of going through the proceeding. I was wondering if you'd be able to quantify sort of the upside there versus maybe downside that you see in costs that you're tracking that maybe aren't related to bad debt or that may not be recoverable going forward?

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

Yes. So really, the only company that we have that's focused on that is Central Hudson. And Jocelyn has got the numbers on that.

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

Yes, Matthew. Central Hudson is still accumulating and providing it to the commission. Potential upside, it could be $0.02 probably. So I would say that's the potential upside. I won't make any guess as to the success they're going to have, but that's the potential upside.

Operator

(Operator Instructions) Your next question comes from Julien Dumoulin-Smith from Bank of America.

Ryan Greenwald - *BofA Securities, Research Division - Associate*

This is Ryan Greenwald on for Julien. So just to follow-up on the earlier question around the unregulated assets. Can you provide a bit more color around the right risk return and potential assets you'd be looking at, given how low the cost of capital is from renewable buyers? It seems like it'd be tough to be competitive but just curious how you're framing things.

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

Yes, that just it, it is tough to be competitive. And we'll know a good deal when we see one, but we really haven't seen one yet. And frankly, the thing that we need to focus on is the supporting infrastructure around those investments. The actual investments in wind projects and solar projects, we can let other folks race to the bottom on returns on those. What they need is all the good regulated infrastructure to get it from that site to a customer's door.

And that's what we focus on is building all of that stuff around it. And there will be enough of that stuff to build around it, that supporting infrastructure, whether it's transmission, distribution, storage, ancillary services, all the things that we need to do and provide as utilities, that's going to be real fertile ground. So we don't feel it right now that we have the need to go into that last little bit. And so that's where I believe that.

Ryan Greenwald - *BofA Securities, Research Division - Associate*

Are you guys looking at actual RNG at all?

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

Yes, yes. Up in BC, FortisBC, Roger Dall'Antonia and his team have been looking at that. They actually have a goal already. They were one of the first. I mean, they were out on this stuff before it was a topic really and set a 30% by '30 goal to reduce the greenhouse gas emissions from their customers. And a lot of that has to do with focusing on things like energy efficiency, like renewable natural gas. They're looking at having, I think, it's 15% of their supply from RNG, which opens a lot of opportunities for us to invest in that. If we can do it within the regulated utility. We have -- we can always do that as a combination, which we have to date of basically PPAs or purchases or have the opportunity to invest in.

And of course, we're kind of -- we're around the edges on the hydrogen conversation, too. We actually are very active in BC on those conversations, looking at studies on how we would do it. But of course, that's early days. Hydrogen is getting a lot of attention, but that's -- I think it's early days in that conversation. But all of that stuff provides opportunities for us to stretch out a little bit beyond just the pipes up there in BC and start getting into the supply a little bit.

Ryan Greenwald - *BofA Securities, Research Division - Associate*

But are you guys -- any particular focus on the nonutility side just in terms of exploring RNG more broadly as an unregulated asset?

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

No, no, no. It's one of those things you got to get expertise and experience in before you want to do it outside -- get out of your knitting. You got to get that expertise. You've got to create your own competitive advantage, then you see what you can do with it. So it's still early days on that, too.

Ryan Greenwald - *BofA Securities, Research Division - Associate*

Got it. Fair enough. And then maybe just lastly, on the FX. It seems like a wait and see fee from the status quo right now around exploring further hedging strategies, but any more color you can add there around your thought process given the unfavorable inflection?

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

Well, Ryan, we did take advantage of the market earlier in 2020, and we did put in some additional hedges. So we continuously watch the market. Right now, we're comfortable with what we have and -- but we do continue to just watch it. And if the time is right and market conditions align, we may do a little more hedging.

Operator

Thank you, everyone. I have no further questions in queue. I turn the call back over to Mr. Amaimo for closing remarks.

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

Thank you, Michele. We have nothing further at this time. Thank you for participating in our fourth quarter and annual 2020 results call. Please contact Investor Relations should you need anything further. Thank you for your time, and have a great day.
