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

REFINITIV STREETEVENTS

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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. Thank you for standing by. My name is Michelle, and I will be your conference operator today. Welcome to the Fortis Second Quarter 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.

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

Thanks, Michelle, and good morning, everyone, and welcome to Fortis' Second Quarter 2022 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 second quarter 2022 MD&A. Also, unless otherwise specified, all financial information referenced is in Canadian dollars. With that, I will turn the call over to David.

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

Thank you, and good morning, everyone. Today, we are pleased to report another successful quarter underpinned by our investment in the energy infrastructure needed for the provision of safe and reliable energy service to our customers. For the first half of 2022, we invested $1.9 billion in our system, placing us on track to achieve our 2022 annual capital plan and supporting our second quarter adjusted earnings of $0.57 per common share. In today's economic environment, our utilities have been especially focused on maintaining customer affordability by proactively managing energy prices as well as other inflationary pressures through hedging programs, energy efficiency programs and cost reduction initiatives.

Today, we released our 2022 sustainability report, highlighting the progress made to reduce our greenhouse gas emissions and link sustainability targets to executive compensation and the corporation's revolving credit facility. The report also includes comprehensive diversity data on employees across the Fortis Group of Companies, which will advance our DEI strategies and inform our objective setting.

Overall, the report contains more than 35 new key performance indicators and is fully aligned with the applicable Sustainability Accounting Standards Board, or SASB standards. During the quarter, we continued to make progress towards our greenhouse gas emissions reduction targets. In June, TEP retired San Juan Unit 1, removing another 170 megawatts of coal-fired generation from its portfolio, supporting their plan to fully exit coal by 2032.

Earlier this month, FortisBC announced a pilot project to produce carbon-neutral hydrogen from natural gas through a partnership between FortisBC, Suncor Energy and Hazer Group, utilizing a new carbon capture and utilization technology that provides a marketable solid carbon byproduct. The pilot is being funded by the partner companies and the provincial government's Clean BC industry fund. While still in the early stages, it is innovative technologies and partnerships like this that will be necessary to accelerate the transition to clean energy.

In June, TEP filed its general rate application with the Arizona Corporation Commission, seeking new retail rates effective September of 2023 based on a December 31, 2021 test year. The application includes rate base of $3.6 billion US dollars, representing an increase of $900 million US dollars since the last rate case, largely driven by investments for renewable generation, such as the Oso Grande Wind project and the Raptor Ridge solar facility. The application requests an allowed return on equity of 10.25% and an equity layer of 54%.

TEP is proposing to modify an existing adjuster mechanism to include recovery of certain investments associated with TEP's clean energy transition. The new resource transition mechanism, or RTM, is intended to reduce regulatory lag between rate cases. In addition, TEP is requesting to eliminate both the demand side management and the renewable energy standard adjusters and recover those costs in base rates. The requested nonfuel increase associated with the rate application totals $159 million US dollars. As the waterfall chart highlights the recovery of investments in rate base make up the majority of the increase. TEP's progress in its clean energy transition plan delivers a net reduction offset to customer rates in this case due to the cost savings from the recent retirement of the San Juan coal facility.

The impact of the proposal to eliminate the 2 adjusters reduces the total revenue increase to $136 million US dollars. Earlier this month, commission staff filed a sufficiency letter indicating that TEP's rate application meets all the necessary filing requirements. A procedural schedule was also agreed to earlier this week with staff and intervenor direct testimony due in January of 2023.

Today, we are reaffirming our $20 billion 5-year capital plan through 2026. This highly executable and low-risk capital plan is expected to increase rate base by over $10 billion over the next 5 years, supporting an average annual rate base growth of approximately 6%.

Earlier this week, the MISO board approved the first tranche of projects associated with the long-range transmission plan. These 18 projects, which span across the MISO Midwest subregion have total investments of approximately $10 billion US dollars. With 6 of the projects located in ITC service territory, ITC estimates investments of approximately $1.4 billion to $1.8 billion US dollars through 2030. This is up from the previous estimate of $1 billion to $1.5 billion US dollars. Once ITC finalizes the timing of these investments, we will update our capital outlook accordingly.

Next, development activities and commercial negotiations on the $1.7 billion Lake Erie Connector project were suspended earlier this week. This was driven by recent macroeconomic conditions that impacted our ability to secure a viable Transmission Service Agreement within the required timeframe. We acknowledge the efforts by all parties to bring the project to this point. However, at this time, it is a prudent and appropriate action given the circumstances. This project has never been included in our 5-year capital plan.

With 48 years of consecutive dividend payment increases, we continue to target 6% average annual dividend growth guidance through 2025, underpinned by our 5-year capital plan.

Now I will turn the call over to Jocelyn for an update on our second quarter financial results.

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

Thank you, David, and good morning, everyone. So, turning to Slide 11. Reported earnings for the second quarter of 2022 were $284 million or $0.59 per common share compared to earnings of $253 million or $0.54 per common share for the second quarter of 2021. On a year-to-date basis, reported earnings were $634 million or $1.33 per common share compared to earnings of $608 million or $1.30 per common share last year. Reported earnings include timing differences related to mark-to-market accounting of natural gas derivatives at Aitken Creek.

Turning to Slide 12. We delivered adjusted net earnings of $272 million or $0.57 per common share in the second quarter. This is $0.02 higher than the second quarter of 2021. Rate base growth at our regulated utilities and a higher U.S. dollar to Canadian dollar exchange rate favorably impacted the quarter. Timing of earnings in Alberta and Arizona as well as losses on retirement plan assets at UNS and ITC tempered earnings growth in the quarter. As you might recall, Fortis benefits from limited pension exposure, given regulatory mechanisms at most of our utilities. In the second quarter, however, broader market volatility impacted the value of certain retirement assets at our U.S. utilities held outside our defined benefit pension plans. The quarter-over-quarter impact was $0.02.

For the 6 months ended June 2022, we delivered adjusted net earnings of $641 million or $1.34 per common share, $0.02 higher than the same period in 2021. Year-to-date earnings reflect the same factors noted for the quarter as well as higher sales in the Caribbean, along with higher operating costs at Central Hudson and lower hydroelectric production in Belize.

The waterfall chart on Slide 13 highlights the EPS drivers for the quarter by segment. We continued to see rate base growth across our utilities supported by capital investments of nearly $2 billion year-to-date.

Our Western Canadian utilities and ITC each contributed a $0.01 EPS increase driven mainly by rate base growth. At ITC, quarterly earnings growth was impacted, as I mentioned, by losses on retirement assets, while earnings growth at FortisAlberta was impacted by timing of operating costs. For our Energy Infrastructure segment, EPS increased by $0.01 due to higher hydroelectric production in Belize. Next, a higher U.S. dollar to Canadian dollar foreign exchange rate favorably impacted quarterly results by approximately $0.02.

At our U.S. electric and gas utilities, EPS decreased by $0.01 in the quarter. UNS was down $0.02 and Central Hudson was up $0.1. As expected, the lower earnings in Arizona were associated with both the timing of AFUDC recognized in 2021 during the construction of the Oso Grande Wind generating facility and losses on retirement assets. UNS did benefit from higher long-term wholesale sales during the quarter, which helped offset higher operating costs and regulatory lag.

Central Hudson's EPS contribution was driven mainly by rate base growth and the conclusion of its rate case in 2021. In our corporate and other segment, the $0.01 EPS decrease was mainly due to losses on hedging contracts. And lastly, as expected with our dividend reinvestment plan, EPS decreased by $0.01 due to higher weighted average shares outstanding.

Year-to-date EPS was impacted by many of the same drivers as the quarter. I would note that the losses on retirement assets at UNS and ITC was approximately $0.04 for the first half of 2022. Year-to-date, EPS was also impacted by higher costs associated with the implementation of a new customer information system at Central Hudson. Central Hudson does not anticipate any additional significant direct costs beyond the $0.03 EPS impact recorded through June.

Turning to Slide 15. We were once again active in the debt capital markets in the second quarter, bringing the total debt raise year-to-date to over $1.5 billion, largely in support of our capital program. With the backdrop of a rising interest environment, several of our utilities accelerated debt issuances in the first half of the year, locking in attractive rates to the benefit of our customers. At Fortis Inc., we recently refinanced $500 million in debt that was due in 2023, and ITC Holdings previously entered into interest rate swaps of $450 million USD to mitigate refinancing risks associated with debt due later this year. During the quarter, we also entered into a 1-year $500 million dollar nonrevolving corporate term facility and amended our existing $1.3 billion dollar revolving corporate facility. Our revolving facility was amended to extend the term to 2027 and establish sustainability-linked targets related to board diversity and the reduction of Scope 1 emissions.

And lastly, we continue to maintain strong investment-grade credit ratings. In May, DBRS Morningstar confirmed our A low issuer and unsecured debt ratings and stable outlook. The recent debt issuances, coupled with almost $4 billion available on our credit facilities, places us in a strong liquidity position, supporting our $20 billion 5-year capital plan.

In addition to the TEP rate case that David spoke to earlier, I'll spend a moment on some recent regulatory updates.

First, ITC continues to wait for a final rule from FERC in relation to the supplemental notice of proposed rulemaking or NOPR on transmission incentives, which proposes to eliminate the 50-basis point RTO return on equity incentive matter.

Next, FERC issued 2 additional NOPRs in June, addressing interconnection queue reform and grid reliability and extreme weather, both of which stemmed from the initial advanced NOPR released last year. While ITC continues to evaluate both NOPRs, any FERC actions that help streamline the interconnection queue will be positive for all parties involved. ITC also supports for continued focus on grid resiliency and expects to be active in the rule-making process. Reply comments on both proposals are due later this year.

Also in May, the Iowa Coalition for Affordable Transmission filed a complaint with FERC seeking to lower ITC Midwest equity ratio from 60% to 53%. The complaints allege that ITC Midwest no longer met the 3-part test which authorizes the use of a utility's actual capital structure for ratemaking purposes. We believe the complaint is without merit and should be denied. ITC filed reply comments in support of its position in June. And while the timing and outcome remains uncertain, a decrease in ITC Midwest equity ratio to 53% would reduce annual EPS by approximately $0.05.

And lastly, in British Columbia, the generic cost of capital proceeding remains ongoing. The proceeding is expected to continue into the first part of 2023 and the effective date of any change in the cost of capital remains unknown.

That concludes my remarks. I'll now turn the call back to David.

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

Thank you, Jocelyn. With the successful execution of our capital plan, our exit from the San Juan generating facility and key regulatory applications, we are in a strong position heading into the second half of the year to deliver on our growth and sustainability goals. Our local management teams will continue to work with their customers and regulators to manage through this time of high inflation and energy prices while still making the investments needed to deliver a clean and resilient energy future.

I will now turn the call back over to Stephanie.

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

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

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## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions). Your first question comes from Maurice Choy of RBC.

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**Maurice Choy** - *RBC Capital Markets, Research Division - MD & Analyst*

My first question is a follow-up on your comment about MISO spending timing. And specifically, I'm trying to understand the moving parts in the months ahead. I know that MISO staff on Monday noted that on August 8, they will indicate what goes through competitive bidding and what will be assigned to incumbent utilities. But you also indicated the expectation that many of the 18 projects will come online by 2028. So, it's a little bit of a tight deadline, so to speak. Is the classification on August 8 is what you're waiting for in order to get a better idea of what all this means to your next CapEx update or is there something else?

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

Yes. Maurice. Yes, so we still have to figure out the exact timing. Obviously, there's estimates of timing of those projects that are part of the original filings, et cetera. But there's still a fair bit of process to go through working with the other transmission owners because some of these projects, we actually are splitting with other transmission owners. So, lots more of detailed engineering, planning, et cetera, that needs to go in to our calculus here before we can put it into our capital plan. I do appreciate that some of those projects look like they're earlier, but those are also probably a bit stale on the dates because this process has been extended a couple of times. But don't worry, we'll get -- as soon as we get a good feel for where those dollars lay out from a capital plan perspective, we'll be putting that out.

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**Maurice Choy** - *RBC Capital Markets, Research Division - MD & Analyst*

Great. And my second question, and this is a follow-up not follow-up, I assume there are still limited details so far on the Inflation Reduction Act that was announced yesterday. Whether this climate portion of this bill is a slim-down version of the bill initiative or something entirely different. Any thoughts on which parts of your business might benefit from this new bill if it becomes law? And is there any changes to the taxes might offset that?

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

Yes. So, it is extremely early. So that crossed the wire there as we were all finishing up our notes for today. We do like the fact that it includes $370 billion of investments in energy and climate. We're not exactly sure what that breakdown is yet. So, we'll be looking at that today and going forward to see how that might apply to our companies and the things that we have in play. I think probably one of the -- at least on one of the press releases that we saw on this bill was the reference to permitting reform. So that's obviously, they referenced transmission in that commentary. And that's always a welcome news when there can be additional help for us to get some of these projects permitted because that's obviously one of the bigger things that we have to do that slows down us doing the transmission projects is getting through the siting and permitting processes. But we haven't been able to digest that completely yet, but we will very soon.

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**Operator**

Your next question comes from Robert Hope of Scotiabank.

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

Maybe a broader question. We've seen I guess, what we could argue is the Lake Erie costs go up. We've seen the MISO transmission projects increase there as well. When you're taking a look at, we'll call it, plain vanilla transmission projects, how much inflation are you seeing in those projects, which could yield a higher capital plan? And then 2, are you worried that the higher capital cost could defer further investments similar to what we saw look like Lake Erie?

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

Yes. Thanks, Rob. So, it's really hard to judge inflation on a longer-term basis because that's what we do in our capital planning process as we obviously have to make some assumptions on where inflation is going and then, frankly, the shape of that curve. The things that we have in flight, say, this year's capital plan, et cetera, we typically don't see a big inflationary impact on those because they're already in flight. We have the materials, et cetera. But as we go forward, we're going to have to obviously adjust on the fly as needed in those capital projects to bring them in on budget as best we can. We don't see long-term inflationary pressures that would cause us to adjust our, I'll say there's 2 different questions, right? Because there's the capital plan as in the total for the current projects you have or is your budget going to get bigger, and you're going to continue to do those capital plans, meaning which is going to give, are you going to keep the capital plan the same or keep the number of projects the same. We are definitely the capital projects that we have are ones that we are needed for the safe and reliable service for our customers. So, we're going to have to do those projects. So, we will have to manage the capital budget accordingly. And that goes to the other side of the ledger, right? So, as we see some of these capital cost increases, as we go, we'll have to look for efficiencies, not only in the capital process and in the construction process, but also look for efficiencies on the O&M side to help mitigate some of the rate impact as these projects go in. So, there shouldn't and we don't see any reduction in the number of projects but we still are continually updating those capital plans to make sure we're capturing inflation as best we can. And that's something that, of course, we'll do in the fall when we put out our next 5-year capital plan.

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

I appreciate answer for that question. Maybe a little bit of a narrower one here. In Arizona, what's the initial feedback been on the filing as you're starting to engage stakeholders realizing that test not due for quite some time here. And B, in a higher yield environment, are stakeholders willing to agree with a higher ROE.

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

Yes, Rob, I actually missed the first part of what we're getting it was a little garbled. But I did catch the last part on the ROE. I mean the ROE it's the formulas that have been used and the conversations that have been used for 100 years. And so, as we see interest rates increase, we do expect ROEs to be following that. In some manner, we typically see a little bit of a lag down, and we'll typically see a little bit of a lag up. But that ROE, particularly in Arizona since I was the one on stand last time, Susan was sitting next to me, she gets to sit on the stand this time. She'll do better than I did in the ROE arguments because I think in the middle of COVID when we were at the end of 2020 and doing that case, we feel that we got a little bit of a reduced ROE because of that. Now when you look at the situation from an interest rate to underlying calculus that again goes into the ROE, I think we're going to come out in a better spot. So, what was the first part of your question?

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

Just initial feedback on what the rate filing has been in Arizona, any feedback from stakeholders so far?

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

Yes. I'll turn that over to Susan to answer.

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**Susan Gray** - *UNS Energy - President and CEO*

Robert, this is Susan. I think it's pretty early to tell the intervener testimony won't be filed until January of next year. But I think our initial conversations as we were planning to file with staff and commissioners and some of the various stakeholders were very positive. And I feel like here we have a lot of support for the new adjuster mechanism, I think the economic situation supports a higher ROE. And so, we're anticipating a great outcome.

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**Operator**

Your next question comes from Ben Pham of BMO.

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

I wanted to go back to Lake Erie and you've characterized it as you're suspending the project. And I'm curious where are you with conversations with the IESO as it effectively stopped at this stage? And is there really any outcome here where you could start working on the project again, as if inflationary inputs that would drive that project going forward?

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

Yes. Thanks for the question, Ben. And I got to tell you, this is a tough time for us to try to lock down a project. We probably couldn't have picked a more volatile 3 to 6 months of inflation, interest rates, et cetera, for FX in order for us to try to lock in the economics that we would need to go forward. So, we obviously have had very close conversations with IESO through this process. And it's the timing. It's a situation where we just -- we have to make the prudent investments and we can't get the return that we need for this type of project in the current environment, absent in essence, sort of restarting those negotiations. So, we have told the IESO that we are suspending the negotiations, and that doesn't mean that the project is canceled, but it also -- it means that we would have to have a pretty big restart for us to get moving again. That's not that doesn't say that it might not happen. But right now, our view is it's suspended. And if it comes back, it won't be soon, and it will take a lot of things to align again.

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

Okay. That's great. And then maybe on your capital plan and looking at the one where you show all the wedges and that 20 billion between distribution and clean energy, all that stuff. I mean, how do you think about when you factor in tranche 1 and there are some new RNG and even transmission, do you expect any meaningful moves in those wedges as you think over the next 6 to 12 months?

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

Oh, Ben, you're trying to get a little preview into our capital plan that we'll release here in the fall. I'll save the answer for that when we put all that together. We're obviously working hard behind the scenes, pulling those pieces together, but I can't really divulge any of that right now. I mean, it's the best part about that existing plan is how those investments are spread across transmission, distribution, clean energy et ectara, thats the exact kind of capital plan you want to see a lot of little projects, little projects that are needed by our customers improve their reliability and, of course, the clean energy investments that we expect to continue to increase over time because of the transition that we're doing in Arizona, the additional renewable interconnections that we're going to be doing in MISO. It is always great to see with that new NOPR on the interconnection queue. Hopefully, once that gets sort of that log jam that gets freed, we'll start seeing a lot more interconnections in ITC's footprint.

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**Operator**

Your next question comes from Mark Jarvi of CIBC.

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

First on the MISO transmission projects. Can you clarify whether or not the numbers you've provided the $1.4 billion to $1.8 billion is net ITC whether or not there's any type of partnerships on any of those projects? And then for Jocelyn with these incremental investments, (inaudible) but can you comment on how they would fold into your sort of funding plan over the next 5 years.

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

So, I'll take the first part. That one point -- our new estimate for the MISO long-range transmission projects, that's our estimate for our dollars, right? So, it doesn't depend on someone else to come in. Now obviously, we have to be discussing the overall projects with the partners that we're going to be splitting some of these with, but those are our dollars and our portion.

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

And Mark, with respect to the funding, I believe, I think I got your question on the funding, particularly as it relates to bringing the MISO long-range transmission plans into fruition. So that's still a bit hard to answer because we don't know the full timing, but assuming it's over a certain period of time. I mean we do have room even within our DRIP program, but it is something we'll have to evaluate when we actually get a chance to see the timing. So, if it's a little bit I guess, lumpier than we expect then we'll have to look at other methods of funding. But right now, it is too early to tell.

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

Okay. Turning to TEP and the rate case, can you guys give us some sort of context in terms of when you said your application, where you were on inflation expectations now since you've submitted some of the updated numbers? And what is the mechanism by which you would update your application for new inflation expectations?

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

Yes. So, since we have a historical test year in Arizona, we don't really get to update inflation as it were. But what we do because it's based on the historical 2021 test year expenses. But what we are able to do is put in some adjustments on a going-forward basis for labor and some other known O&M with things that are known and measurable that go into that calculation. But we don't have an interest rate tracker or anything like that in Arizona. So that is the one jurisdiction that as we see inflation increase between rate cases that can have an impact. But also on the other side, it's regulatory lag that works both ways as, as inflation will come down the other side, you'll see the higher inflation built into rates. So overall, it kind of evens out over time. So, from a long-term perspective, it kind of gives and takes throughout the years.

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

I guess I was most interested in the labor in the O&M stuff. So, is there an opportunity to resubmit updated expectations for those items?

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

I don't know of any way of doing that, but we also have never been in an environment like this. So, when you have high inflation and it changes from the time basically on a historical basis, there's a lot of different ways that you can get that consideration for that during the rate proceeding. So, there may not be as keen eye on expenses when the commission and the interveners realize that inflation has increased. But there's also ways of managing it, right? So, Susan and her team down in Arizona will be managing O&M expenses as best they can to offset that, offset the impact, whatever it might be as we go forward. So, there isn't standard process per se. Now if you get into settlement negotiations, that opens the doors for a lot of different conversations that are typically not available to you if you're going through a standard fully litigated process.

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

That makes sense. I'll sneak one more in here. Just at (inaudible) 0:33:56, I think one of the condition in submitting that sort of a novel idea of sort of capitalizing some of the, I guess purchase agreement costs. So, any initial thoughts on that and what that means, I think, from a cost mitigation for your customers?





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

Yes. We're actually pretty happy to see that conversation take place. This was the Chair, Marcus Peterson, who put out that letter. It's a good way to look at things because PPAs versus ownership have to be looked at on a bit of a -- it has to be looked at on a level playing field. We feel that ownership has a lot of -- not just financial but intangible benefits related to the ability for us to dispatch say, renewable energy, battery storage, et cetera, exactly how we need to instead of trying to figure out how to get a contract price right to give you the full flexibility and unfettered access to the value of those assets. So, one of the things that PPAs do is it leans on your balance sheet, right? It's imputed debt and having a recognition for that to, in essence, level that playing field, I think, is helpful. Now all that being said, I'm looking at Susan and seeing as she nods. We have no idea where this is going to go because it was just a proposal by one commissioner. And we don't know if this will get any traction with at least 2 others and sees an agreement.

**Operator**

Your next question comes from Andrew Kuske of Credit Suisse.

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

Maybe if we could just look back at UNS and Arizona more broadly because obviously, there's a wealth of Arizona related experience on the call today. The regulatory environment, it's ebbed and flowed at times. And maybe just give us some perspective on where you see the dynamics right now from a positive standpoint versus maybe less constructive in and of itself, a history of Arizona and then also just as you see it versus other jurisdictions where you have exposure or just more broadly?

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

So, I'll turn this over to Susan to talk about the kind of the current situation. And if you want the history of the world, I can give you the last 27 years that I've been in Arizona as well. But I think the most important piece to answer here is kind of the current situation and Susan's got a pulse on that.

**Susan Gray** - *UNS Energy - President and CEO*

Yes. I think that our 3 companies have had some positive outcomes, regulatory outcomes just even this year. And if you look at our last rate case, other than maybe a lower ROE, we did have some positive outcomes out of that case. So, we're feeling like there is regulatory support for UNS. I think some of the more extreme negative outcomes have been directed more at one company, and we feel like that is unique just to that company, and we don't expect that to be the case for UNS or for this TEP rate case.

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

And then really how it compares across the rest of the footprint, which was in your question there. I mean, I might be biased because I came from Arizona, but I always thought that it's a very constructive environment. When you get past some of the headlines and some of the kind of one-offs, we have a very good relationship with a very strong staff up there. And that's really the -- that's the group that is there from year to year to year to year. And having those relationships building up the trust through transparency is how we've operated. And so, there might be little rulings, et cetera, that we might not be found of, as Susan mentioned, I guess, the ROE in the last case. But I mean you have to realize in the scheme of things that it's still a very, in my opinion, a very constructive environment. And as we go forward, I think others will start seeing that as well.

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

Okay. Appreciate that. I'm going to refrain from naming that one company. But when you look at the...

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

As did we.

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

That was noted. If you maybe look at just the drivers within Arizona and you mentioned the 27 years, when you think about economic growth potential that has been robust on a historic basis, how do you think about the growth drivers and even in the event of a negative outcome or something that's less favorable from a regulatory standpoint, does the overall growth environment in Arizona really support the business there.

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

Yes. That's really one of the key underlying principles in any jurisdiction is that we serve -- we're regulated utilities. We serve lines -- load within lines on a map and it's really important for our growth, that the lines on the map within which we serve are growing. And in Arizona, Arizona has always been one of the highest growth states I wouldn't say always. But for -- I think it's out of the last 4 or 5 decades, there was only 1 decade where Arizona wasn't in the top 4 fastest-growing states. So even in economic downturns, net migration into the state, the business environment that we have a constructive business environment from a tax -- business-friendly perspective. And just flat out, it's a good place to live and people like to move there. Weather is a consistent positive in Arizona, and that does bring in net migration to the state. So, the underlying growth is there. And I think you'll see that within the overall numbers when you look at Arizona versus the other states, and we expect that to continue. It is something that -- except for that big downturn in 2008, there was only for a few years after that, that we didn't land in one of those top spots for statewide growth.

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

If I can sneak one more in, and it's an area we don't talk about that much more, whether or not as positive as Arizona, but there's a lot of percolating positives in Atlantic Canada. Maybe just talk about any kind of emerging opportunities that could surprise to the upside in the portfolio.

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

In Canada, is that what you asked?

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

Really in Atlantic Canada.

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

Atlantic Canada. Yes. So, there's while we're all sitting here in Alberta today, when I was in St. John's just a month or so ago and seeing the economic vibe in NewFoundland related to some new projects, particularly in the oil and gas, which is a big part of that economy over there, a couple of big projects that were announced, both an expansion and a new project, that was a big deal. And I think that, that has given a little bit of boost to people in NewFoundland in particular. I think probably the broader conversation around say, the Atlantic loop and the opportunities that, that might bring wind development that's being talked about in NewFoundland and Labrador. All of those things are additional positives for growth opportunities in our sector. Atlantic Canada, you kind of have to look at as -- well, if you get something like the Atlantic loop, you have to look at it like an integrated like an integrated resource plan for the region. And that means all of us need to do a little bit different resource planning, and it's going to include transmission, renewables, maybe some additional hydro, et cetera. There's a lot of development opportunities. It is a resource-rich area. You've been there and you know how windy, it can be. So, wind is definitely going to be a component going forward. And we may be able to even invest in some of that wind. As you also might know, solar will not.

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**Operator**

Your next question comes from Matthew Weekes of iA Capital.

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**Matthew Weekes** - *iA Capital Markets, Research Division - Equity Research Analyst*

I think I just have one and just wanted to ask if you could provide sort of any comments at this point on progress on the GCOC proceeding in BC just in terms of development, how that's been progressing, timing and maybe how those conversations are going with the regulator at this point?

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

Sure. I'll turn that over to Roger Dall'Antonia, he's here as well.

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

Thanks, Matthew. The proceeding, we're through the information request process for the most part. We just had a procedural conference early in July, we are awaiting the order for additional process. There is a potential for an oral hearing in November and should the oral hearing proceed, then we'd likely be getting the early 2023 with the decision to follow, but we're waiting for that. As far as the process, nothing surprising, we did put forth a request for higher ROE and capital structure. The interveners, of course, are suggesting something less than that, and we're really no surprises so far in what we're seeing in parties, and we look forward to seeing very soon here.

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**Operator**

(Operator Instructions) Your next question comes from Michael Sullivan of Wolfe Research.

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**Michael Sullivan**

My first question was just around the FERC complaint on the equity ratio. I understand that you're pretty confident that you will ultimately prevail here. But just in terms of process, would it be surprising if FERC at least took it off and set it to hearing. I think when this came up a number of years ago, they just outright denied it. Is that the expectation this time or would it be not surprising if they did, at least take it up?

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

Well, our desire would be for them to outright deny it, which we think would be the right process, but I'll turn it over to Linda Apsey to answer that one.

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

Thank you, Michael. Absolutely, as Dave said, we certainly would hope that FERC would dismiss the complaint outright just given that how we set our capital structure directly according to the FERC's 3-pronged test. And so, this would be a significant departure from FERC precedent if they were to grant the complaint. So certainly, our hope and desire that they dismiss it outright. And certainly, the comments that we have provided in the docket certainly lay out our case. And we are hopeful that FERC will take the appropriate action. I would note that there are no timeframe required for FERC to act. So, we don't really have any visibility into when we might get a decision from FERC.

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**Michael Sullivan**

Okay. But if they don't outright deny it, should we be worried or is it still possible you can ultimately prevail.

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

Well, I think if FERC does not -- FERC would have to take action. If they don't deny it or dismiss it, there are 2 other possible paths. One, they could grant the complaint and yield their own decision through an order or through an order, they could set the matter for hearing, which would ultimately sort of take us off into a different track before an ALJ, and we would certainly be down the hearing path, which with presumably the expectation that there would be some settlement or at least attempt of settlement. So, I think it's far too soon to know or tell what the outcomes might be. Again, we're hopeful that this will be an outright dismissal of the complaint given that we follow FERC precedent. And again, I think as we've mentioned before, this would have broader industry impacts as other utilities have similar equity components in their capital structure. So, this would certainly have much broader concern from the industry's perspective. And that's why I think there were other interveners in the docket to that effect, reminding FERC that their precedent, nothing has changed. There's no change in facts or circumstances. So again, we remain hopeful that this will be an outright dismissal.

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**Michael Sullivan**

Okay. Great. That's super helpful. And I wanted to also just shift gears to the quarter and the trust asset performance drag. So it looks like it's been about $0.02 a quarter so far this year. I mean if the market continues to kind of hold where it is, obviously, that's a big if, but should we expect that to be like a sustainable drag through the remainder of the year?

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

Yes, Michael, that's right. So, if the market holds, then we shouldn't see any further impact of these assets. But as you know, the market is still moving around. But if the market holds where it is today, then we probably would keep the $0.04 impact that we would have.

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**Michael Sullivan**

Okay. So, no incremental year-over-year impact in future quarters?

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

Not expecting, no. It depends on the market, of course.

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**Operator**

Your next question comes from Dariusz Lozny of Bank of America.

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**Dariusz Lozny** - *BofA Securities, Research Division - Research Analyst*

Just a quick one on your sales trends that you reported for the quarter. It looks like Central Hudson came in fairly robust, double-digit increase on residential. Can you talk a little bit about what kind of trends you're seeing there? It looks like you're not calling out weather specifically. So, it looks like that might be organic growth, but just curious if you could unpack that a little bit.

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

Yes. Let me turn that over to Charlie Freni, we'll have some more details on the load impacts in this quarter. Charlie, you there?

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

I am here, Dave. Thanks for the question. Our service territory, north of New York City is really prospered with, I want to say, the migration exit from the city. So, we're seeing a pretty robust housing development, more housing development than I've seen in a long, long time. So, people are moving to the area. And obviously, when mortgage rates were low, a lot of starts and purchases were taking place. So from a residential perspective, we're seeing that. We're seeing a fair amount of conversion to heat pumps. The heat pump programs in our service territory as well as some of the other service territories in New York have been, for the most part, stripped of all of their funding because there's been such strong demand for the heat pumps. And more and more electric vehicles are in the area as well. So, I think there's a number of drivers there that has supported the residential growth.

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**Dariusz Lozny** - *BofA Securities, Research Division - Research Analyst*

Great. One more, if I can, and this is just a follow-up to a response that you gave to another question. I think you said that in response to seeing some of the pressures on capital costs and things like that, you might look to efficiencies on the O&M side. And I'm just curious if you'd be in a position to perhaps quantify those expected O&M efficiencies on any future updates.

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

Yes. In the future, we will. This is something that we've been having conversations throughout really the past year on ways for us to find ways of reducing costs to allow us the headroom to make the needed investments we need in the infrastructure that our customers need. So, we are continually trying to figure out how to best gather and display that information for our investors and for ourselves. So, we'll continue to do that and continue to refine that and get it in some of our IR materials and decks and conversations going forward.

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**Operator**

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

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

Thank you, Michelle. We have nothing further at this time. Thank you for participating in our second quarter 2022 results conference call. Please contact Investor Relations should you need anything further. Thank you for your time, and have a great day.

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**Operator**

Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank everyone for participating and ask you to please disconnect your lines.