

## Forward Looking Information

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

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

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## PRESENTATION

### Operator

Good morning, everyone. Thank you for standing by. My name is Brian and I will be your conference operator today. Welcome to Fortis Q1 2023 Earnings Conference Call and Webcast. (Operator Instructions)

At this time, I would now 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, Brian and good morning, everyone and welcome to Fortis' first quarter 2023 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 US GAAP financial measures in our first quarter 2023 MD&A. Also unless otherwise specified, all financial information referenced is in Canadian dollar.

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. Before getting started, I'd like to introduce Chris Capone to his first earnings call, since being appointed President and CEO of Central Hudson in February, following the retirement of Charlie Freni. For those of you who don't know Chris, he's been with Central Hudson for over 20 years, serving for many years as Chief Financial Officer. Welcome, Chris. We look forward to working with you in this new capacity as you lead the team in New York.

**Christopher M. Capone** - Central Hudson Gas & Electric Corporation - President, CEO & Director

Thanks, David.

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

Today, we are pleased to report strong first quarter results, which reflect the diversified nature of our business, favorable market conditions and the continued delivery of our low-risk capital plan. As we've talked about in the past, we remain keenly focused on meeting our clean energy goals, while investing in the resiliency of our energy systems, all-in a manner that ensures continued customer affordability.

For example, FortisBC received a milestone approval in April from the British Columbia Utilities Commission for a CAD155 million investment supporting their energy efficiency programs. This is just one of the many ways our utilities are taking the lead on climate action, while offering practical options to customers to reduce emissions and their bills. From a financial perspective, we invested CAD1 billion of capital in our energy systems and adjusted earnings per share in the quarter increased CAD0.13 compared to the first quarter last year, driven by strong regulated growth which Jocelyn will speak to shortly.

On the regulatory front, our applications in Arizona and British Columbia continue to progress with decisions in both expected mid-year. On Monday, we announced that we entered into a definitive agreement with Enbridge to sell our unregulated investment in Aitken Creek for approximately CAD400 million. Once the sale is closed, we expect to use the proceeds to paydown our corporate borrowings, which strengthens our balance sheet and provides additional funding flexibility to support our regulated utilities growth strategy.

The transaction is subject to approval by the BCUC, as well as certain closing conditions and adjustments. The sale is expected to close in the second half of 2023.

With approximately CAD1 billion invested in our systems in the first quarter, our CAD4.3 billion annual capital plan remains on track. Our major capital projects progressed during the quarter. In March, FortisBC filed amended transportation rate schedules with the BCUC in relation to the Eagle Mountain-Woodfibre gas line project. Approval is expected in May and once approved, the project would be one-step closer to construction.

The first tranche of projects associated with the MISO long-range transmission plan are advancing with stakeholder outreach, routing studies and design engineering, all underway at ITC. In total, ITC estimates transmission investments of USD1.4 billion to USD1.8 billion through 2030, with six of the 18 projects in tranche one.

As you may recall, the CAD22.3 billion five-year capital plan consists of virtually all regulated investments and a diverse mix of highly executable low-risk projects supporting rate base growth across our portfolio of utilities. The plan also includes CAD5.9 billion for investments that directly support cleaner energy.

Over the next five years, we expect rate base to increase by CAD12 billion from approximately CAD34 billion in 2022 to over CAD46 billion in 2027, supporting average annual rate base growth of 6.2%. With a strong track-record of increasing dividends for the past 49 consecutive years, coupled with our low-risk growth strategy, we remain confident in our 4% to 6% annual dividend growth guidance through 2027.

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

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

Thank you, David and good morning everyone. Slide 9 provides a summary of our first quarter results. Reported earnings were CAD437 million or CAD0.90 per common share. Adjusted earnings were CAD439 million or CAD0.91 per common share, CAD0.13 higher than the first quarter of 2022. Rate base growth and higher earnings in Arizona were the key drivers of growth for the quarter, which I'll discuss shortly. Foreign exchange also favorably impacted the translation of our US-denominated earnings, while earnings growth was tempered by higher holding company finance cost and higher weighted average shares outstanding.

The waterfall chart on Slide 10 highlights the EPS drivers for the quarter by segment. At our US electric and gas utilities, EPS increased by CAD0.08 for the quarter, with UNS contributing CAD0.09 and Central Hudson down CAD0.01. A number of items impacted UNS' results for the quarter, most notably higher wholesale sales and FERC transmission revenues were mainly driven by favorable market conditions.

Additionally, UNS benefited from gains on investments that support retirement benefits. Higher retail sales including the favorable impact of weather also increased earnings. And lastly, lower depreciation expense associated with the retirement of the San Juan facility last June, more than offset higher operating cost. About half of the increase in EPS contribution from UNS is expected to moderate, given timing of wholesale and transmission revenues compared to 2022.

The CAD0.01 EPS decrease at Central Hudson was mainly due to higher operating costs and finance costs, partially offset by rate base growth. ITC in our Western Canadian utilities each contributed a CAD0.02 EPS increase, driven mainly by rate base growth. At ITC, earnings growth was tempered by higher holding company finance costs.

Our energy infrastructure segment contributed a CAD0.02 EPS increase for the quarter, driven by higher margins and volumes at Aitken Creek and higher hydroelectric production in Belize. A higher US dollar to Canadian dollar foreign exchange rate favorably impacted the translation of our US-denominated earnings, which increased EPS by approximately CAD0.03. The CAD0.03 decrease in EPS contribution from our corporate segment was mainly driven by higher finance costs.

And lastly, EPS increased by CAD0.01 due to higher weighted-average shares outstanding related to our dividend reinvestment program. All-in-all, a very strong quarter, even after excluding the timing of earnings that UNS and foreign exchange impacts.

During the quarter, our regulated utilities raised over CAD600 million in long-term debt, largely in support of their capital programs. We also recently entered into interest-rate hedges to mitigate holding company refinancing risks. Despite broader market volatility during the quarter associated with the banking crisis, there remains a strong appetite for low-risk, strong credit quality issuers like Fortis.

With our recent debt issuances coupled with CAD3.6 billion available on our credit facilities, we continue to maintain a strong liquidity position, supporting our CAD22.3 billion five-year capital plan. We remain comfortably positioned within our investment grade credit ratings as we execute our capital plan and pursue incremental organic growth opportunities.

Turning to an update on some of our ongoing regulatory proceedings since we last updated the market. First, ITC has right to first refusal or ROFR for regional transmission projects in Iowa, Michigan and Minnesota. In March, the Iowa Supreme Court granted certain parties standing to challenge the Iowa ROFR, issuing a temporary injunction staying enforcement of the ROFR statute and remanding the issue to the District Court.

Although, the timing of this proceeding and impact on future project is unknown, the decision is not expected to impact projects already approved and awarded by MISO, including Tranche 1 of MISO's long range transmission plan located in Iowa. In Arizona, TEP rate case continues to progress, TEP's requested rate base of USD3.6 billion and equity layer of 54% are consistent with Arizona Corporation Commission Staff recommendations.

Staff has also recommended an allowed ROE of 9.5% compared to TEP's current ROE of 9.15%. Hearings concluded in April and recommended order and opinion from the Administrative Law Judge is expected mid-year. We expect new rates later this year.

In New York, there are no updates on the Show Cause order regarding the deployment of Central Hudson's new customer information system. Central Hudson did file a response to the Show Cause order in January and the timing and outcome of this proceeding remains unknown.

Turning to Western Canada, FortisBC filed its final reply arguments on its generic cost of capital proceeding and a decision is expected by mid-year. At Fortis Alberta, proceedings related to the generic cost of capital in the third PBR term effective in 2024 are progressing with evidence filed, a decision is expected from the Alberta Utilities Commission later this year on both proceeding.

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

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

Thank you, Jocelyn. 2023 is off to a great start, both operationally and financially, highlighting the balance and strength of our regulated utility businesses. Looking ahead, we expect to continue to provide long-term value to our shareholders through the execution of our growth strategy, supporting our 4% to 6% annual dividend growth guidance through 2027, while concurrently delivering a cleaner energy future and safe, reliable and affordable service to our customers. That concludes my remarks.

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 would like to open the call to address questions from the investment community.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) First question comes from the line of Maurice Choy.

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

Just want to dive a little deeper into Q1 results at UNS. Can you elaborate a little more on the nature of the timing of these wholesale electricity sales and transmission revenue. What happened during the quarter for these items to emerge? And when you say half of the year-over-year increase in EPS contribution will moderate, does that mean you need to somewhat give it back about CAD0.04 to CAD0.05 over the remainder of the year?

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

Maurice, yeah, we indicate that we think it's going to moderate just really based on looking at how we transacted last year for wholesale sales in particular. We had done some wholesale sales in third quarter and I believe some in the fourth. So it's just early in the year to make predictions of how and when these transactions are actually going to unfold. So when we look at the timing, most of them were in Q2 last year. So with that, we just advanced it forward in Q1. So we are expecting some of the wholesale sales to moderate.

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

And I want to finish off with the sale of the Aitken Creek gas storage facilities. Can you take us back to when you first thought about selling the asset. Why do you feel selling an asset was the right thing to do? Why was this the right asset to sell in also why now?

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

That's a great question, Maurice it's -- our job as fiduciaries to look for value within our company and that value change is based on a lot of different inputs, one of them being market condition, interest rate, et cetera. So given that we are always looking for finding that additional shareholder value, some of these things are just kind of on our list to be looking at. When things align, when you can find a good opportunity, good value and a good counter party to look at these assets and find even more value than we can find in them, that's what triggers a deal. It wasn't anything like we're sitting here trying to figure out how to sell this for years and years and years. This is just something that we were being very opportunistic with.

And now given the market conditions, provides us particularly in a volatile market period, provides us that additional funding flexibility, balance sheet strength, et cetera. So that's just all of the right things aligned here.

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

I mean as a follow-up, you mentioned this is one of the things that's on your list to look at. What else is on that list? And obviously, there's some other large unregulated asset in there, like the hydro assets in Belize, with the same logic selling the gas storage in Aitken Creek apply to this set of hydro assets? Or is it more complicated because just taken Belize electricity?

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

Yeah, Maurice, you did not disappoint. I figure that I would have given odds, I would have been your follow-up question. So the only other appreciable unregulated assets we have period is Belize. We don't have some sort of schedule to be looking at these assets. It again is just us being opportunistic across our portfolio and finding that value. So we don't have an agenda here.

**Operator**

Next question, we have Rob Hope with Scotiabank.

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

First question is Arizona, going into the hearing, you were a little confident that you could get a stipulation agreement, which didn't come to bear. But can you give us some color on how the hearings went and kind of where you see yourself more aligned or less aligned with the stakeholders?

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

Yeah, I'll turn that over to Susan Gray, who's the CEO of UNS Energy and was -- just spent some time on that stand in those hearings. So definitely, has been a very -- I think, sitting from -- speaking from someone who was sitting in that chair, it seems like it was a very straightforward batch of hearings and frankly places of kind of standard disagreement or argument across things like ROE and some other odds and ends. But Susan, do you want to provide a little color on that?

**Susan M. Gray** - UNS Energy Corporation - CEO, President, COO & Director

Yeah, I think that the hearings were as expected. Prior to the hearings, we were able to narrow some of the contested issues with the other stakeholders and/or intervenors. And so, I feel like we had a pretty straightforward hearing in terms of issues that we covered. I would say a lot of discussion around the system reliability benefit, which is an adjuster mechanism that we're proposing to reduce regulatory lag for our new clean

energy investments. There's also some conversation about the coal community transition and potential customer funding, which hasn't really been set as a policy by the Arizona Corporation Commission.

And then, yeah, kind of the typical ROE, fair value increment, things like that. But I think that we're pretty close, a bit closer than we've been in years past in terms of what staff has put forward and what we're recommending. And so looking forward to the judge's recommended opinion and order this summer and then an open meeting to decide the rate case probably early fall.

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

And then sticking with Arizona, a little bit more of a local question Proposition 412, kind of do you view this as kind of normal course? Or is there potentially some concessions to be made there?

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**Susan M. Gray** - *UNS Energy Corporation - CEO, President, COO & Director*

So Proposition 412 is our proposition to approve a new franchise agreement with the city of Tucson. And I would say what's new in this franchise is that we have added a 0.75% increase to the rate, which was previously 2.25%. In order to cover the under grounding cost for a new transmission line that we're building through the city of Tucson and that would provide recovery over about a 10-year period. We've also designated 10% of those new funds to fund the city's Climate Action and Adaptation Plan. So that's what the agreement that we came to with the city and that's what's being proposed in Prop412.

I think this is fairly new for the city, so I'm not sure I would call it normal course of action, I mean franchisees are normal. This is just a little bit of a twist on it. So the election is coming up just in a couple of weeks here and hope to get started on building that new transmission line underground.

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**Operator**

Next question comes from the line of Linda Ezergailis with TD Securities.

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

Just wanted to step back to a very high level and get your updated views on the likelihood and the relative attractiveness of potential unregulated but contracted energy infrastructure investments. I recall in recent history, kind of delegating a search for these types of opportunities to some of your regional heads. And just wondering if the overabundance of utility investments now has kind of put those opportunities to the back burner or if they're less attractive or maybe you can comment on over time how much of your overall company might be unregulated, if any? And then maybe you can also specifically comment geographically on your the opportunities you also see in BC with the divestiture of Aitken Creek, but you've got your Woodfibre Gas Line likely proceeding and also some RNG opportunities.

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

That's a great question or questions, Linda and appreciate you asking them because I think this is -- provides an opportunity to provide some very -- some clarity. One is, are we interested in doing unregulated renewables? The answer is no. We have a lot to do in our regulated utilities. And frankly, that's where we see the additional growth going forward on top of our current existing capital plan. So that's where we're focusing. The others are back burner still however you want to think about it. It's -- that's not in -- not -- clearly not in our sights.

When we think about longer term, what we want to look like from a company perspective, regulated versus unregulated, we're practically 100% regulated other than that investment in the Belize hydro generation that we have. We like that, we think that's what our investors like to. We think that's the right opportunity to look. And then frankly, that's where our core competency lies. And that's where I think we're going to see plenty of growth opportunities as we go through the clean energy transition on a going-forward basis.



Can you remind me what the last part of your question was...

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

Just BC specifically because you've got some RNG in place.

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

Yeah, so the things that we're looking at in BC from the Woodfibre pipeline, regulated utility infrastructure from Tilbury 1B regulated utility infrastructure. It is -- don't try to read anything into us getting out of an unregulated storage facility as a view on our BC company. We love that BC company. We think that they have huge growth opportunities. We see them playing a big role in Clean BC and the strategy for decarbonizing that province. And we're -- it's just as simple as trading unreg for reg. And so I think that provides a lot of clarity on where we're going forward.

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

And just a follow-up question on your capital five-year capital expenditure plan, as it continues to evolve and as you layer on new opportunities, especially potentially facilitated by the IRA in the U.S., might you look for alternative like not alternative finding thing, but like might you augment your current financing plan and add to it or might you defer some more discretionary capital to kind of stay within the current financing plans?

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

So as we build out that capital plan, I don't want to get ahead of our next release as we're drawing up our current plans. And so though look at what our next capital plan, which will be coming in kind of that September, call it, fall time frame, that will be the time that we'll update anything related to, obviously, the capital plan, timing and how we'll fund it. And obviously, the Aitken Creek gives us an extra CAD400 million in there from a funding flexibility perspective as well.

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**Operator**

Our next question comes from the line of Mark Jarvi with CIBC.

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

I just want to come back to strong results at UNS and Jocelyn you talked a bit about timing, how we might see that year-over-year comparable moderate a little bit, but kind of implying also that results are up. So are you implying there's some sort of structural tailwind a little around the wholesale market in transmission revenues and what's driving that, if there is?

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

Yeah, for the most part it's volume and price differences. It's not -- it's market driven. It's very specific to shorter-term. I'll say shorter-term market perturbations if you want to think of it in that respect. So it isn't necessarily on the wholesale side, a view that there's this long-term additional wholesale sales that can -- that will continue on a going-forward basis. Now on the transmission side, there is just a lot more use of our transmission system than we've had in the past, that's probably, basically likely to continue. I think one of the things that folks forget is that UNS and TEP, Tucson Electric Power in particular has a large portion of their rate base that is FERC jurisdictional transmission. And we'd also have a forward formula rate that looks just like ITCs. And we have, I think, about CAD1 billion of transmission capital or about CAD900 million or so in the current five-year capital plan at UNS. So some of those things will continue to grow over time.

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

And then, Jocelyn, coming back to you in terms, you mentioned putting some hedges around interest rates going forward, the Aitken Creek allows you to take out some short-term debt here. Is there anything else you'd like to do in terms of managing any holding company debt or bring down interest expense cost?

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

Mark, I would say that the two you mentioned are two big ones for us, right? I mean obviously, Aitken frees up CAD400 million of our borrowings to give us that flexibility. But we did enter into both here and at ITC at the holding company level into interest rate hedges for the upcoming holding company financings that we have to do this year. So we're always watching the market to determine a good time to go in. And so -- but it's good to take that risk off the table, right? The markets are still volatile and so we're laser-focused on taking that risk off. But Aitken and interest rate lock certainly do improve our position with respect to the volatility we would expect to see on our business. So -- but we're always watching.

I don't see -- I think we're going to be looking to -- for our regulated utilities, potentially looking at timing of their debt offering. So we're watching the market very closely.

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

We see actually more convertible note offerings from U.S. Utilities, is that something you'd contemplate or there's really not a fit right now for Fortis?

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

So definitely always looking at things, but the convertibles are not really in our space right now with our current five-year plan because we don't require any further equity beyond the DRIP that we've already outlined within the plan. So -- but certainly, as we -- as David mentioned, as we now look to our next five-year capital plan and as we look at the investment profile over the next five years, we'll look at all funding options, but convertibles definitely is something that's out there these days.

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**Operator**

Next question comes from the line of Ben Pham with BMO.

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**Benjamin Pham** - *BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst*

I wanted to ask on the Iowa situation with ITC and what are your thoughts on next milestones to look for your overall thoughts on process a little bit there. And in terms of materiality, you're thinking this is more of a CapEx you have in there is not going to change or you might see some changes and it's not overly impactful to your potential CapEx plan.

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

I'm going to punt that one right over to Linda. She has all the details that you're looking for.

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

Yeah, I think in terms of next steps, obviously, the Supreme Court has remanded the case back to the District Court. And so obviously, there now will be sort of a proceeding involving all the parties to litigate through the constitutionality of the ROFR. Unfortunately, we don't really have a good sense as to what the timing of that will be or the decision. As we stated, obviously, it doesn't have an impact on the Tranche 1 projects that have already been issued and awarded. But certainly, as we go forward, there's various kind of, I guess, places that this issue is playing out. One, clearly, as at FERC, this was clearly an issue that was teed up in the transmission planning NOPR in terms of sort of questions around the continuation of sort of competitive bidding, the ROFRs. And so we would be hopeful that FERC obviously would make some decision around the ROFR issue.

But there -- it is obviously playing out, it's playing out in Texas. We now have it in Iowa. And so for us sitting here today, we're going to continue to stay focused on planning the transmission system with MISO and obviously advancing sort of both the LRTP1 to LRTP 2 projects. But I would mention that there are a lot of carve-outs for certain types of projects that are precluded from competitive bidding, certainly, projects that utilize existing right of way, projects that are rebuilds, projects that are clearly just reliability projects and there's a lot of different categories of projects that are not subject to competitive bidding.

And so much of our five-year plan, obviously, is our base capital and we would continue to have the right, the responsibility to execute on those projects that are ours. I would say it's premature to know exactly or understand kind of how all of this plays itself out or what the impact is, but you can sort of assure yourself that sort of we are -- we will be positioned and are positioned I would say to both be defensive and offensive on this front. So we're taking every step that we can to prevail on the ability to have ROFRs. It is something that FERC explicitly allowed in the -- their -- well, their subsequent ruling on competitive bidding.

And it is something that FERC recognize that states have the right and the ability to have state ROFRs. And so we will be actively pursuing, defending the ability for states to maintain the decision around who builds in the respective states. And I would just say, I mean, we have been pretty vocal through all of our comments in the FERC front in terms of -- we fundamentally don't believe competitive bidding is a success story, it's the opposite, it takes more time. There's no evidence to suggest that it's cheaper. And I will give you an example right now, even in the LRTP Tranche 1, we are off and running in terms of siting, engineering, preparing our regulatory applications. Meanwhile, the couple of projects that are subject to competitive bidding probably won't even had the decision on who builds those for at least another year. And so how this is compatible with the overall sort of national federal goals for carbon reduction and the need for investment in transmission is really a serious question that I think all the parties need to seriously consider. I just don't think this -- I think this is a failed experiment quite frankly and we will be continuing to defend vigorously, as well as be proactive on this front.

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**Benjamin Pham** - BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst

And maybe just sticking with ITC and the remaining 20% minority interest. Can you clarify if hypothetically if GIC were to sell that portion through just whether it's a fund life ending or some other reason. Does Fortis have a ROFR on that? And also just any thoughts on ITC just more strategically?

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

I'm checking around the room and yes, apparently, we do have those rights if GIC was to sell for us to -- I don't know if it's a right to first offer or rights of first refusal. But I totally wouldn't expect GIC to be interested in selling that part of ITC. I can't speak for them, of course, but they do like that investment.

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**Benjamin Pham** - BMO Capital Markets Equity Research - Senior Energy Infrastructure Analyst

And maybe to close off on asset sales, Aitken in particular, I'm not sure, did you -- in your prepared remarks, you comment on how to value compared to your hold value or your current trading multiple and impact on future EPS?

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

No, we didn't, but Jocelyn can opine on it.

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

Yeah, Ben, so we paid around USD266 I believe and CAD350. So it's a little bit of a higher value than what we have paid a couple of years ago. With respect to multiples, I would say -- as you can recall, we talk about Aitken quite frequently on the calls because the earnings somewhat are more variable given pricing and volumes. But over the last five years, the average for Aitken has been about CAD0.04 a year. So if you do the math on CAD400, you're going to get the mid-20 multiple for this transaction. So as David talked about earlier, yeah, it was a good time to do this transaction for us.

**Operator**

Next question comes from the line of David Quezada with Raymond James.

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

Maybe just starting with the billing system at Central Hudson. Any news or updates you can share there, like how far away you are from correcting those issues? And any expectations around higher O&M costs related to that?

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

Yeah, so the system is sending out bills correctly now. And as far as additional costs, we are spending some additional money to hire customer service folks, additional billing people, et cetera, to make sure that we're fully recovered and on a going-forward basis, we see those bills going up correctly. So it's still a little bit of mop-up here and there from the blip that we had when we put it in service, but those are getting towards the very tail end here.

And then we're just going through the process of making sure that we're getting out there with our customers, our regulators, our government officials and telling that story and getting everything back on track.

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

And maybe just one more for me. I understand there have been some news report suggesting pretty big renewable energy plans in the Mexican state of Sonora with some plans to export that to the U.S., including into Arizona. Just curious if that's something that could ultimately be factored into the IRP for UNS or if that affects your business there in any way?

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

So given that neither Susan or I are familiar with that, I would probably say no. But when we look at our integrated resource plan that TEP and our smaller UNS electric company are both doing here later this year. We do look across a broad swath of different projects. It would just be whether or not projects like that, if they showed up, they would likely show up in one of our all-source RFP. There is very limited transmission capacity from Sonora up to Arizona. And believe me that the transmission -- to build transmission from Mexico to the U.S., particularly to connect into our system, we tried that about 25 years ago and gave up after about 15 years, I think, of trying to get that built.

But that could actually be an opportunity for us to extend transmission, it could be an opportunity for us to look for cheaper renewables, but there's plenty of sunshine in Arizona and our neck of the woods that connects to our existing transmission system or would need much less infrastructure to attach to our grid.

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**Operator**

Next question comes from the line of Andrew Kuske with Credit Suisse.

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

Maybe continuing with the transmission theme, obviously, you have a lot of skin in the game given ITC and just the other assets you've got. There's -- transmission has always been difficult to build, but there's obviously increased emphasis given the energy transition and there's a lot of talk on transmission cues and the interconnection problems. So I guess, how do you think is the best way to resolve it? I know that's like a big question, but what steps can you take? Or should the industry take overall just to sort of tackle the problems that exist ahead?

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

Yeah, there's multiple fronts that you have to address this on. And FERC is addressing several of them. One primarily that you mentioned is the interconnection queue and that NOPR as of last week, we hear it's -- it should be pretty soon where they get to a final ruling on how to, in essence, untangle the interconnection queue. And I think they're definitely doing it in the right manner, which is first ready for served. And if they -- if that goes through and we can get that queue cleaned up and start getting more of those interconnections done. Obviously, that's a big uptick for ITC in their business. I should note that there -- that NOPR doesn't address cost allocation on those interconnections, but that would be the next thing that we would look at.

There's a lot of conversations at FERC. There's a lot of conversations in the federal government in the U.S. that's really focused on trying to reduce the amount of time, red tape, et cetera, associated with permitting and siting. We're very hopeful that something gets done there. It feels to me like that's a very bipartisan topic. Everybody sees the need for transmission for the clean energy transition. It's obviously going to be needed for building the additional capacity that we'd like to build, not just to support the Inflation Reduction Act and the amount of renewables, but also the manufacturing that is trying to be brought back into the United States that can actually help provide some of those batteries and renewables, et cetera.

So I think it's on everybody's to do list, which is a good spot to be. But we definitely need to be pushing through all of the industry groups that we, in particular ITC works with, to try to find a better way to do this. The federal government and that one of the main things that they're focused on is trying to figure out how to create a little bit of a easier path through all the different agencies that have to approve siting. And then of course, FERC has a role there too with their backstop authority and whether or not or how they choose to use that to redefine it.

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

And then, I guess, let's just assume we land this in a positive spot and some of the industries do get untangled to use your language. How much upside do you think exists to the growth that you've already got?

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

That's -- stay tuned for September. We still have to -- there's no number I can put there, obviously. It's really about the ability to execute and to get it done faster. At this point, it would probably be more of a conversation around timing versus dollars.

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

So more bringing forward things versus a much larger number?

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

Yeah and specifically, Tranche 2, which we expect to be looked at over the next year or so in MISO that the timing on that could change hopefully, significantly, not the timing on when the projects get awarded, but the timing on when the projects can actually get built if we can figure out how to tighten up some of these permitting and siting requirements.

**Operator**

Next question comes from the line of Matthew Weekes with iA Capital.

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

Just wanted to get your sort of high-level thoughts directionally on the Canadian federal budget, just wondering if anything specifically kind of stands out to there, how you're sort of looking at different opportunities right now and just general comments on that.

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

So it's kind of like a -- it's a bit of a mini Inflation Reduction Act, a lot of the same pieces are in that. There's two in particular. One is related to tax credits for new clean energy projects, the other is tax credits related to manufacturing. And those two things are very good from economic and clean energy -- economy and clean energy transmission standpoint. They don't necessarily have a direct impact for us in our businesses, which are mostly energy delivery in Canada.

However, the indirect impact is -- this is all going to mean that we need additional transmission and distribution, which is our business to deliver those -- the clean energy and to supply new manufacturing opportunities across Canada. So it's more of an indirect view from a Canadian perspective on that. And then plus, there's still a lot TBD, particularly around hydrogen and what that credit might look like. That might be the one opportunity where we have more of a direct benefit, say, in FortisBC for us to look at different hydrogen development opportunities within the regulated construct there.

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

And just one more for maybe and I think I know the answer to this, obviously, plenty of opportunities to grow in your regulated portfolio that you highlighted organically. Just wondering if there's any kind of place for M&A opportunistically, whether it's anything larger or small scale or just any kind of sort of room for that in the growth plan

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

Yeah, as you mentioned, we got a pretty healthy capital budget that we're really focused on and we're going to spend most of our energy focused on finding out how to take that to the next level and then execute at that next level. So that's where our main focus is here. Obviously, as fiduciaries, we keep our eyes and ears open, but that's not a priority for us.

**Operator**

Next question comes from the line of Michael Sullivan with Wolfe Research.

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**Michael P. Sullivan** - Wolfe Research, LLC - VP of Equity Research

This got asked earlier, but I just wanted to be really direct on it. Can you just explain why you think you were unable to reach a settlement in Arizona and what kind of changed from when you were kind of indicating that, that may be the case on the last call?

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

Yeah, it's just getting a bunch of people in a room to agree and frankly, you've got a short time frame to do that and it just didn't happen. I mean it's one of those things that you try to get done, but you can't control the different counterparties. And I'll say I was extremely pleased with Susan and the team at TEP and their ability to get it down to just those couple issues to be really discussed in earnest in the hearings. When you're sitting here at 9.5 and 9.75 from a ROE perspective on staff versus ours and the rest of the pieces that have come in and the conversations have all been constructive.

It didn't -- at the end of the day, it didn't really bother us that we had to go through a couple of weeks here, didn't bother me because I didn't have to testify. But it's always better if you can get a settlement just from an expeditious standpoint. But this was the next best thing because in the end, there wasn't a lot of topics here that we were -- that were thorny.

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**Michael P. Sullivan** - Wolfe Research, LLC - VP of Equity Research

And also just related to -- sticking with Arizona, specifically the renewables rider request and then discussion around system improvement benefit mechanism. Maybe just where does that stand? Where do you see that going? And can that be resolved within the rate case or outside and it becomes longer dated, just where are we at on that?

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

I'll turn that over to Susan for color on that new tracker that we're talking about.

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**Susan M. Gray** - UNS Energy Corporation - CEO, President, COO & Director

So the tracker is the system reliability benefit and that was a change from what we had originally proposed. It was actually suggested by the staff that we look at something that was more similar to an existing adjuster that's used for water companies. And so we did submit a plan of administration through the testimony process in the hearing staff offered to work with us to come to an agreement on what that plan of administration should look like. So at this point, we're waiting for the judge to put it in her recommended opinion and order and then for the commissioners to say, yeah, we do want you to work on that plan of administration. So we wouldn't actually have one in place until after the rate case is actually decided.

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**Operator**

(Operator Instructions) Next question we have Dariusz Lozny with Bank of America.

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

Just to maybe follow up on the Q1 EPS drivers that you guys reported. You called out that at both UNS and ITC an increase in the market value of some -- looks like it's assets in some of your retirement plans as an upside driver for both UNS and ITC. Any way to maybe just quantify that, like what proportion of the CAD0.12 upside that you guys realized in Q1 was related to that mark-to-market impact?

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

Yes, Dariusz, it is in UNS and ITC. It's about CAD0.01 each in each of those utilities.

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

And just coming back to the discussion on wholesale sales in both Q1 but also prospectively, it sounded I think from Jocelyn's comments earlier that it might be a negative driver in Q2. I think you mentioned that last year, the majority of those sales were in Q2. So can you maybe just comment on that as far as the shaping of that for the balance of the year? Would you expect that to maybe be a modest negative in Q2?

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

Yeah, that's probably too much in the weeds because the timing quarter-to-quarter and year-over-year is different. So I think we did it in a couple of different quarters last year and so we might -- the two quarters this year, I don't know if I could pick out of a hat. But overall, we expect it to kind of obviously moderate year-over-year. So we can't really put that kind of quarter-over-quarter clarity there.

**Operator**

Thank you. All right. As there are no further questions. I would now like to turn the call back to Ms. Amaimo.

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

Thank you, Brian. We have nothing further at this time. Thank you for participating in our first quarter 2023 results conference call. Please contact Investor Relations should you need anything further. Thank you for your time and have a great day.

**Operator**

Thank you for participating. This concludes today's conference call. You may now disconnect.

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