Sept 19, 2023 – Investor Day Transcript Forward-Looking Information

Fortis includes forward-looking information in this presentation within the meaning of applicable Canadian securities laws and forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (collectively referred to as "forward-looking information"). Forward-looking information reflects expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as anticipates, believes, budgets, could, estimates, expects, forecasts, intends, may, might, plans, projects, schedule, should, target, will, would, and the negative of these terms, and other similar terminology or expressions have been used to identify the forward-looking information, which includes, without limitation: forecast capital expenditures for 2024-2028, including cleaner energy investments; forecast rate base and rate base growth for 2023 through 2028; annual dividend growth guidance through 2028; the 2030 GHG emissions reduction target; the 2035 GHG emissions reduction target; the 2050 net-zero GHG emissions target; the expectation to exit coal by 2032; the expected timing of the issuance of the Corporation's second TCFD report and plans to further assess financial impacts of climate risks and opportunities; the expected impacts and benefits of the IRA; forecast key initiatives for ITC for 2024-2028; ITC's forecast capital expenditures for 2024-2028, including cleaner energy investments; ITC's forecast rate base and rate base growth for 2023 through 2028; the nature, timing, benefits and costs of certain ITC capital projects including ITC's estimated investments in Tranche 1 of the MISO LRTP through 2030, and additional opportunities beyond ITC's capital plan, including investments in MISO LRTP Tranche 2, RTO transmission projects, large load interconnections, generator interconnections and other regulated or non-regulated transmission opportunities; forecast key initiatives for UNS Energy for 2024-2028; UNS Energy's forecast capital expenditures for 2024-2028; UNS Energy's forecast rate base and rate base growth for 2023 through 2028; UNS Energy's 2035 projected asset mix; UNS Energy's planned coal retirements; the excepted impact of tax incentives on regulatory lag and customer rates; the expected timing and contents of the 2023 IRP; UNS Energy's forecast capacity needs for 2024-2035, including potential power shortfall in 2028 and long-duration capacity needs following coal retirements; UNS Energy's estimated incremental investments beyond 2028; forecast key initiatives for FortisBC for 2024-2028; FortisBC's forecast capital expenditures for 2024-2028, including cleaner energy investments; FortisBC's forecast rate base and rate base growth for 2023 through 2028; FortisBC's 2030, 2040 and 2050 GHG reduction targets; estimated infrastructure investments associated with the electrification of the City of Kelowna; the nature, timing, benefits and expected costs of additional opportunities beyond FortisBC's capital plan, including investments enabled by the Greenhouse Gas Reduction Regulation, the potential for additional liquefaction capacity and supporting infrastructure related to the Tilbury 1B Expansion project, and the regional gas supply diversity project; expected timing and outcome of the sale of Aitken Creek; expected sources of funding for the Corporation's capital plan; expected sources of common equity proceeds and the expected uses of proceeds from the DRIP and ATM; the expectation of a consistent capital structure over the planning period; the expectation that the long-term dividend guidance will provide flexibility to fund more capital internally; forecast credit metrics for 2023 and 2024 through 2028; forecast debt maturities for 2023-2032; scheduled preferred share dividend rate resets; the expected timing, outcome and impact of regulatory proceedings and decisions; the nature, timing, benefits and expected costs of certain capital projects, including ITC's projects associated with the MISO LRTP; UNS Energy's Vail-to-Tortolita Transmission Project, UNS Energy's Renewable Generation investments to support TEP's IRP, UNS Energy's Battery Storage project, FortisBC Tilbury LNG Storage Expansion, FortisBC AMI Project, FortisBC Eagle Mountain Woodfibre Gas Line Project, FortisBC Tilbury

1B Project, FortisBC Okanagan Capacity Upgrade, and Wataynikaneyap Transmission Power Project, and additional opportunities beyond the capital plan, including investments related to the IRA, the MISO LRTP, climate adaptation and grid resiliency, renewable gas solutions and liquefied natural gas infrastructure in British Columbia, and the acceleration of cleaner energy infrastructure investments; forecast rate base by business unit for 2023-2028; planned additions of wind, solar and storage by TEP through 2035; FortisBC's 2030 RNG supply target; the expectation that the Corporation will continue to focus on its organic growth strategy; the expectation of minimal change in the Corporation's consolidated capital structure over time; the expectation of a reduction in the Corporation's debt; the expectation that the full ATM will not be used prior to its expiration; and the expectation that the ATM will be renewed.

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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

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

(presentation)

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

Good morning, everyone, and welcome to St. John's where it all started. I'm pleased that so many of you could join us in person here, and also welcome all the folks who are joining us virtually as well.

Just for frame of reference, if you can see Signal Hill, it's a nice day in St. John's. So you can see it. We're all set for beautiful weather here. It's so appropo to have this conversation about our 50th year of consecutive dividend increases right here. But I also know this is looking backwards. And perhaps some of you are interested in looking forwards as well. So I think that's what we're going to do today. It's we're going to -- obviously, we celebrated the 50th consecutive year, now let's see where we are going next. And since we are going to be looking forward, here's the forward-looking information that you should review in conjunction with this presentation in our materials.

A couple of things of note here. The first is that we are going to be speaking in Canadian dollars, unless otherwise mentioned. So sometimes we'll switch between Canadian and U.S. dollars, but the other thing is we're using a constant FX in our forecast that's [$1.30] (corrected by company after the call). That's the same that we used in the last forecast, just so that we're comparing apples-to-apples.

So the agenda today, I'll get us started talking up our priorities and our growth outlook, then we're going to kick it over to talk about our 3 largest utilities, ITC, UNS Energy and FortisBC and how they fill in that picture. Then we'll have a financial update, and then we will have Q&A at the end for both folks in person and those who are attending virtually. Today's speakers, yours truly as well as Linda from ITC, Susan from UNS, Roger from FortisBC, and of course, Jocelyn will cover the financial pieces at the tail end.

So let's start with a real super high-level view of our company. I won't go into great detail because I know so many of you are familiar with our company. But we are a company that consists of 10 regulated utilities across North America in Canada, the U.S. and the Caribbean. But the characteristics of those utilities and our company are important to understand. One, we're 99% regulated. So that's our thing, where we buy regulated utilities, and we grow those regulated utilities. And now we are very much focused on organically growing those utilities as you'll see in the presentation today.

But we're also primarily an energy delivery company, 93% of our assets are related to the transmission and distribution of electricity and natural gas. Why is that important? Well, I bring that up because that means only 7% is non-T&D type assets, which are generation and that's typically where you get the higher environmental footprint, only 5% of our assets are related to fossil generation. And as you'll see, and those of you who have followed us for a while will know, we've got a plan to address those fossil emissions that I'll talk about here in a few minutes.

So our company has got 2 things we're really focused on. That's being a premium North American utility, and the second is delivering a cleaner energy future. It doesn't get much more straightforward than that. But we do that by specifically focusing on 5 priority areas. The first is a clean energy transition. Again, you'll see that theme throughout today. You'll see how the clean energy transition that's happening across North America, in Canada, U.S., Caribbean, everywhere in the world, as a matter of fact, but specifically in our sector and for our utilities, you'll see how that shines through and how it develops into projects for our capital plan. But that's a good main key driver of our growth opportunities, both in this plan and going forward, but we also have to balance it with our other priorities, innovation and technology, making sure that we have the right people and culture in our organization, those regulatory relations that are so important in our regulated companies and of course, our customer and community.

But there's a couple of other foundational pieces that I want to talk about, too, because it's really important to understand these -- on reflecting on our execution, not just the last 50 years, but why we're set up to execute well going forward. The first is our local business model. That's why you have 3 different CEOs up here who will talk about their subsidiaries in as much detail as you want to hear. We have a local model because that's exactly what we need for the type of businesses that we are. Regulated utilities need to be in their customers -- in their communities with their customers, their regulators and other stakeholders. Those decisions that happen in those communities are influenced by those communities. And each of those communities, each one of those companies has a very different regulatory environment, customer environment, et cetera.

So we want to make sure that we are balancing that right by having that local leadership there. But we also bring it up to the Fortis level. And at the Fortis level, we take those 9,200 employees that we have across the entire organization and are able to pick their brain on any topic and get the best answers and use those best practices and share those across our organization. So that's a key part of our foundation of how we execute so well here at Fortis.

A couple of other key pieces of that foundation are what I call Operational Excellence and the other is Governance. Operational excellence in safety and reliability. Look, safety is and always will be our #1 priority, the safety of our employees, our customers, our contractors, our communities, that is #1 and close behind it is we all know is reliability as see more and more of these extreme weather events, we have to make sure that we're planning accordingly. We're good at that. We're good at the safety and reliability because that's all we do. That's the 99%. That's what we do. We run regulated utilities. So we know that business and we stick to it.

The other is around Governance. That's such a good metric for how well an organization is run is how does it test from a governance perspective? Well, I'm proud to say that our Board, the Fortis Inc. Board was ranked #1 out of 226 companies in the S&P and TSX Composite Index for governance in the Globe and Mail's Annual Board Games. That's something that's incredibly impressive. And it's impressive being #1 out of 226 is great in and of itself. But they actually -- that we have belt and suspenders on governance. We even have that same level of governance down at our subsidiaries. We have independent boards at the majority of our subsidiaries that also provide an additional level of governance. So when you think about 2 litmus tests, is a company in our sector doing well, look at safety, reliability and governance. So those are very much the key things that you should be looking at.

So we talked about 50 years, let's get into some other numbers. This is the one that I'm also really proud of $25 billion. Our new 5-year capital plan released today is $25 billion. It's a $2.7 billion increase over the last 5-year capital plan. That's driving a 6.3% rate base growth. Then you got to call out where that growth is coming from. The big portion of that growth, as you'll see on the next slide, half of it is coming from ITC as they tick up their growth rate to 7% over the next 5 years. And all of this supports our strong 4% to 6% dividend growth rate that we also just extended another year through 2028, after we announced our dividend, our 50th year dividend today.

So let's get down into the breakdown of what's driving that incremental capital. And you'll be able to hear a little bit more of these details from the CEOs because these are the 3 CEOs who will be speaking. ITC, as I mentioned, half of that increase related to additional transmission projects mostly around the MISO Long-Range Transmission Plan Tranche #1. Also the additional interconnections. UNS is related to the resource transition up $600 million, FortisBC up $300 million related to some clean fuel investments as well as some general investments in infrastructure, like AMI systems, et cetera. The other $400 million that I'll mention is the majority of that is from Central Hudson. And that's related to their transmission and distribution investments.

New York has a very -- I'll say, a very aggressive climate action plan, their Climate Leadership and Consumer Protection Act. It really is driving a lot of investments for Central Hudson and gas there in New York State. I will mention too, though, that this does not include those of you who've seen some of the announcements around the New York Transco project, so there's a big $3 billion project that was announced, one of the PROPEL projects in New York, $2 billion of that is going to New York Transco. Well, Central Hudson actually owns 10% in New York Transco. So that 10% is not capital, it's an equity investment in the way that's formed. So we don't have it in this slide. It's also much later, we don't expect that to come into service until around the 2030 time frame anyway. Obviously, early days on all that and figuring out when that money will flow, but wanted to make sure you had that in the back of your mind for full disclosure as well.

The things driving growth are the things that you would expect, the clean energy transition, the capital that we need. Obviously, that's been ramped up or catalyzed by the Inflation Reduction Act. So we're seeing plenty of that across our subsidiaries. Again, things that we need to invest in from a climate adaptation perspective that I'll talk to in a minute as well as this is the best way you want to see that growth come in. Customer growth and economic development. That's the way that we want to be growing our utilities of seeing that economic development within our footprint. And that's exactly what we're seeing.

So at a glance, I'll just talk real briefly about how that $25 billion capital plan is split up. We like to talk about our major capital projects, which for us is anything over $200 million, which really isn't all that big when you think of a $25 billion capital plan, it's less than 1% per project. But we have 10 capital projects that constitute 18% of our capital plan. The reason we talk about this is to show that, that other 82% are small kind of standard investments. But I also want to say that the 18% is standard investments, too, they're just larger. I mean we've got 3 transmission projects. We've got 2 LNG projects. We've got 2 renewable projects. We've got 2 gas pipelines, and we got an AMI system in that group of ten. That's all regular stuff. That's all the things that we know how to invest in and how to develop.

The other thing that we'd like to measure is how much of this money in this capital plan is going towards cleaner -- what we call cleaner energy capital. And if you remember from the last 5-year capital plan, this is up $900 million or call it, rounding to $1 billion of additional cleaner energy capital over the next 5 years. And those are things like additional transmission investments at ITC as well as renewable energy investments and a couple of new cleaner fuel investments. And then, of course, sustaining capital, that's there to tell you about all the rest of the stuff that's not in that 18%. This is the regular investments that we make on a day-to-day, year-to-year basis to make sure that we're maintaining our system at the right level.

And then we always have to rank them, and we want to look at our utilities and see where that growth is. And as I mentioned, ITC is at the top of that 7% growth rate with FortisBC right behind it at 6.5%. Now the reason this is important, those are our 3 largest utilities. So this is a major portion, just those 3 utilities is a major portion of our capital plan. So to see how that breaks down is important. And then, of course, as you look over the 5 years, this grows our rate base by $12.6 billion over the 5 years, that's the way to grow. That organic growth of dollar for dollar investments in our regulated infrastructure is the best and safest return for your money as investors. So, let's talk about the rest of it, we're building that capital plan, but what else are we doing from a company's perspective that's important to things that we need to focus on. We continue to focus on that clean energy transition and delivering that cleaner energy future. And we are still at it.

In the first 3 years since we put out our 75% greenhouse gas reduction goal by 2035, first 3 years, 29%. We're shutting down the coal plants in Arizona and replacing them with renewable energy and storage. So we have a great track record already in these first 3 years, and we're on track to continue along that path. In fact, we were so comfortable after the first couple of years of this goal that we extended it and put in a net zero by 2050 goal just last year. So these are the things that we continue to focus on. This is very important for us to make sure that we, as a company, are doing our part to reduce emissions. This is also a part of that greenhouse -- or part of our strong ESG story because remember, I mentioned that only 5% of our assets are fossil generation. We're talking a lot about 5% of our assets. So this is -- this really shows you that we're very focused on the clean energy future.

But that's not it because it's not just enough to reduce the emissions from what we are doing, but we have to make sure that we're planning accordingly for additional future climate scenarios that we know that we're going to see more severe weather events as we go forward. So how do we plan for that? It's we have to build that climate adaptation and resiliency into our plans. When you think about looking at future scenarios across our broad footprint, flash back to that slide that showed our footprint across North America, those are very different. The plans, the scenarios are very different by each jurisdiction. As you might imagine, sitting up here in Newfoundland is quite a bit different weather, quite a bit different system that we would need, say, in Arizona. So we focus on what we need for extreme heat waves in Arizona. We talk about hurricanes, ice storms, whatever it may be, we need to bring in partners, whether they're industry partners and of course, across our own Fortis subsidiaries to develop these types of plans and scenarios and then work them into our planning on a going-forward basis, work them into the standards that we need to set across our sector.

So we're partnering with the likes of EPRI and their resiliency and adaptation initiative, which is an industry-wide effort to do just that to help define and determine what some of those future scenarios would look like. And of course, the standards needed to build our systems on a going-forward basis, then we got to figure out how to use technology quite a bit better too because all of that ties into it. Whether you're talking about mitigation, preparation, response or recovery, we need to be making sure we're doing each one of those in the view of what's coming, not what's happened in the past. And that's part of what we're doing from a TCFD perspective, too.

We became a supporter of TCFD back in 2021, and we continue running our climate scenarios through that process with our subsidiaries to look at the risks and opportunities that those provide and then, of course, planning accordingly.

So I need to spend some time talking about customer affordability because this is incredibly important. When we talk about the clean energy transition and you look at that graph of our greenhouse gas emissions and how we're going to reduce those, that takes investments. When we think about resiliency and climate adaptation, that takes investments. How do we make sure that we can manage and execute our capital plan and still keep our customers' rates affordable. Believe me, that's front and center in our company and each one of our jurisdictions. So the things that we focus on, and some of these are more obvious than others. We have to maintain a very close control of the operating cost that we can control. That's extremely important. We have to look for efficiency. We have to use technology. Those are things where that business model that I mentioned earlier come into play.

The ability to share across our footprint, across our subsidiaries, those best practices so that we can reduce costs as best we can. And of course, while we're maintaining reliability. The other thing that I mentioned that the greenhouse gas reduction story, and that takes capital, but you can't forget that particularly in the story in Arizona, what are we doing? We're shutting down coal plants, pulling out not only fuel but O&M, so those are costs that customers are already paying and we're replacing that with capital. Well, in the best circumstances, you can do that and actually save money or get at least close, but there is a large offset. Those are the types of investments that we want to look at the old standard CapEx for OpEx kind of investments that every business looks for. But we have a very obvious target-rich environment as far as parts of our resource portfolio go.

The other thing that we need to focus on is -- helping our customers manage their bills. We do that and always have done that for a long period of time with energy efficiency, demand side management programs, et cetera, that's really important. We have to make sure -- and it's important for us, too, because that limits the amount of infrastructure investments we have to make. We like high, flat load to serve, right? So we have to figure out how to -- one, reduce the amount of energy that our customers use and two, flatten it out so they get a better resource allocation across our entire footprint. That's critical, especially as we look at electrification.

Well, electrification also can provide a very strong economic benefit to our customers, I mean, whether it's electric vehicles. And that's part that we have to also make sure there's a big education piece here out for our customers and customers in general in our sector is the investment in, say, electric vehicle, even though you will see your electric bill go up, and I'll pick a number because I'll use Arizona numbers for my car. And yes, I'll pay -- if I drive 1000 miles a month, I'll pay like $40. Well, if I drove the same amount in a similar car that was gasoline powered, it would be 3x maybe 4x that, depending on where your gas prices are. Right now, it's 3x, it looks like it's going to 4x. So that's the savings we have to make sure that we're celebrating with our customers, and also to make sure that our grid is ready to do that to make sure that we can bring in that electrification.

Bill assistance programs are always important as well. This actually, I'll tie this us with the Inflation Reduction Act. When there's federal dollars out there, when there's any type of assistance money out there for our customers, we want to make sure we help them get it. We pass through Inflation Reduction Act dollars. We look for LIHEAP money down in the U.S. and other dollars that are available for our customers, and we make sure that the customers that have the need for that, those dollars gets it.

A couple of other initiatives that I think are well worth talking about as well. One is the Energy Imbalance Market. When we at UNS joined that energy imbalance market, I don't think people really understand that the whole reason we're doing that was on the behalf of our customers. What we do is we get a better, more efficient generation dispatch. We save money and we pass that directly through to our customers through the purchase power and fuel adjustment clause that they have. So this is ways that we can hopefully help mitigate and maybe stabilize prices that and hedging activities that we do at several of our subsidiaries. Those are important for us to stabilize our customers' rates. And lastly, I'll leave you with this slide. We started with the video. This is something we're extremely, extremely proud of on that track record. But the whole point of this slide and the whole point of this conversation today is we're not done yet. So let me turn this over to Linda, and she's going to talk about ITC.

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

Well, thank you, Dave, and good morning, everyone. It is great to be back in person for our Investor Day. For those of you that maybe perhaps aren't as familiar with ITC, let me just provide a little bit of background in terms of where our assets are and the size and scope of ITC. We are the nation's largest stand-alone independent transmission company and our assets are in 8 states, predominantly in the Midwest and Great Plains region with the predominance of our assets in Michigan and Iowa.

For ITC, we are recognized as one of the largest transmission load-serving entities in the country. We serve almost 23,000 megawatts of peak energy demand, with almost 26,000 kilometers of high-voltage electric transmission. We're a little bit different than most public utilities that you may be familiar with that may be regulated at the state or provincial level, ITC because it is an independent stand-alone transmission company, we're regulated from a rate perspective solely by the Federal Energy Regulatory Commission.

We obviously enjoy a forward-looking formula rate that has an annual true-up mechanism. And so we obviously get -- we get recovery either of costs that we have under recovered or obviously, we refund back to customers in the event that we have over recovered.

From our perspective, our regulatory construct essentially provides us with real-time recovery of our expenditures and certainly is a premier model in terms of our ability to continue to recover the cost and make the needed investments in our transmission infrastructure. Our MISO operating companies have a 10.77% ROE and our ITC Great Plains subsidiary has an 11.41% return on equity. All of our operating companies have a 60% equity component.

Before I jump into the details of our 5-year plan, I thought it would be important if I just maybe take a step back and sort of set the stage for our new 5-year plan. This 5-year plan didn't just sort of happen several months ago when all of our planners and finance folks. This really is a culmination of years, if not a decade of work. From our sort of holistic transmission planning perspective, to all of our regulatory and advocacy work that has helped to drive a constructive policy environment, our 5-year plan is really a reflection of all the hard work and effort of all of our employees as well as our philosophy and mindset.

But certainly, this plan also reflects a culmination of factors in the broader marketplace. Certainly, as we all know, transmission, as I say, it's a great time to be in the transmission business as we recognize that it is the key facilitator and enabler to our clean energy future. And certainly, as we think about the policy reforms that I mentioned, we're also seeing positive economic development in our footprints that are also driving the need for new transmission investment, and then, of course, the ongoing need for continued investment to focus on reliability, resiliency and security of our grid.

ITC prides itself on its ability to holistically plan and identify transmission opportunities. But more importantly, we pride ourselves on our ability to continue to execute and deliver on the plans that we put forth. Obviously, like any other business, we continue to be very focused on challenges that present themselves along the way. And this plan, this 5-year plan is no different. Obviously, we have a strong pipeline of transmission projects, both near term and long term, and sustaining our growth comes from delivering fundamental value to our customers and our shareholders. But as our ongoing capital projects like our baseline reliability projects, our LRTPs and our generator interconnections that drive and comprise our new 5-year plan.

One of the things, I think, that we think of in terms of ITC is really our strategic footprint and geography. We are located in sort of the wind-rich regions of the country. We participate in very constructive, progressive RTOs. As I said, we're starting to realize a lot of economic development in our footprints that drive the need for transmission. And so when you take all of our -- sort of take our geography, our membership, our holistic transmission planning perspective, we see ourselves continuing to obviously propel ourselves into the future in terms of delivering on this country's energy goals.

Of course, as we always do, we're very focused on managing the current challenges and hurdles that present themselves. And for us, and obviously, as we talk about our key -- of course, this 5-year plan is going to continue to be on execution. But certainly, we have to continue to remain focused, remain vigilant, be proactive in terms of continuing to manage the remaining open FERC matters that lie before us managing our way through the ROFR issues, or competitive bidding. And obviously, as Dave talked about, to customer affordability.

Well, this is our moment, and I would say certainly a wow moment for ITC. As Dave highlighted, today, we're rolling out ITC's largest capital plan ever with $7.2 billion in capital investment over the 5 years. That equates to an average $1.4 billion a year in average annual capital spend. This plan is also a $1.4 billion increase over the prior year plan, and reflects a 100% increase from the capital plan that we unveiled back in 2018. That is a wow moment and certainly why we're so focused on being able to continue to execute and deliver.

Consistent with prior year plans, our capital plan is premised on similar drivers of growth. Obviously, infrastructure investments, such as baseline reliability projects, upgrades and asset renewals, generator and load interconnections, the LRTP Tranche 1 projects and ultimately in grid security. This year-over-year increase in our capital plan primarily reflects increase in spend in 3 categories. It's a roll forward of our capital in our LRTP Tranche 1 projects. It's an increase in our baseline reliability projects and its an increase in spend associated with our customer load interconnections. This $7.2 billion 5-year plan reflects a 7% annual compounded growth rate and rate base, and reflects a 100 basis point increase in rate base CAGR over last year. Certainly, we're excited about this plan. And as I mentioned, all efforts are focused on continuing to execute this plan and deliver the value in this 5-year plan.

To break down the components of this 5-year plan, let me take each of these sort of one by one. As I talked about sort of reliability and grid modernization. That category comprises $3.9 billion of our 5-year plan, sorry about that, jumping ahead, that's $3.9 billion of our 5-year plan. And obviously, as I mentioned, we continue to see significant needs on our system for day-to-day investment in terms of improving reliability, upgrading our infrastructure. As the system continues to change with interconnection of new generation, new demands and certainly, weather events, we continue to see more and more needs for investment on our system at the baseline reliability level.

And as I mentioned, certainly from a weather perspective, obviously, we're all familiar with the significant weather events. And certainly, our systems have not been immune to that. We have seen tornadoes, derechos, ice storms, wind storms. And certainly, as we think about the future and as we think about our 5-year plan and as we think about moving forward, more and more of our focus is on how can we adapt our transmission planning standards, for example, obviously accelerating wood pole replacements as we think about different size or different type of conductors for the weather conditions or perhaps needing to relocate substations out of flood-prone areas just to name a few. So these types of perspectives as we face the realities and the demands on our grid will continue to be front and center as we continue to plan the grid at ITC.

As I mentioned, as we roll forward our Tranche 1 -- our MISO Tranche 1 projects. The MISO-LRTP Tranche 1 reflects, sorry, it's Canadian dollars are getting me -- reflects an increase of -- I'm so sorry. As we roll forward with the plan, our 5-year plan now reflects CAD 1.5 billion in these projects, my apologies -- which is a $600 million addition to the plan over last year's plan for the LRTP projects.

If you recall, we've previously indicated that we anticipate that the total cost of the LRTPP projects will be approximately USD 1.4 billion to USD 1.8 billion, and we still continue to maintain that forecast.

Our teams in Michigan and Iowa are hard at work and actively engaged in continuing to drive the deployment of these LRTP projects. We are still in the phases of citing land acquisition, seeking regulatory approvals and engineering work, but the teams are very much hard at work.

The third key component of our plan is our renewable interconnections. This 5-year plan includes CAD 900 million for renewable interconnections. Renewable energy deployment has seen unprecedented demand for generator interconnections with almost a 100% increase in interconnection queues in our footprints over 2022.

The renewable interconnections in our plan reflects approximately 7,000 megawatts of renewable integration across our footprint and reflects our customers' integrated resort plans, signed interconnection agreements and other anticipated interconnection agreements.

As I mentioned earlier, our geography is optimal for renewable energy deployment and already reflects 10,000 megawatts of interconnected renewable resources in our footprint. Given our independent transmission business model, we pride ourselves that we interconnect generators on average, 5 months faster than any other transmission owner in the MISO region.

And our final category of our plan, reflects $600 million in capital investment associated with transmission to interconnect new industrial load. Both, as I mentioned, both Michigan and Iowa are experiencing unprecedented economic development announcements and projects. Michigan is seeing major project and site announcements for EV battery investment and chip manufacturing to support, obviously, the auto industry transition to EVs. And in Iowa, in our footprint, we are seeing economic development projects for data centers and to pursue green hydrogen investments. Clearly, we welcome these projects on our footprint. These are the best types of capital investment that we can get because it helps to continue to drive load and ultimately spread the costs over more customers. So it helps to lower rates. So we're really excited about the economic development and obviously, our participation in those processes.

While we have a robust financial 5-year plan, our work, our efforts are focused does not stop there. As you all know, we have a proven track record of capital execution and a long-term pipeline of transmission investment to benefit our customers. As we think about opportunities beyond this 5-year plan, in the near term, we are continuing to be focused and participate and continue to pursue economic development opportunities like those that I mentioned. Also, given obviously the impacts of the Inflation Reduction Act as well as the Generator Interconnection Queue reform, we anticipate that we will continue to see significant drive for more generator interconnections to connect more and more renewable resources. And obviously, we are well poised and well positioned to interconnect expeditiously on those projects.

The MISO-LRTP Tranche 2, we expect MISO to continue their study analysis with ultimately projects that will be announced or unveiled. It's difficult to know exactly when those will be announced. We anticipate either by year-end or early next year. And we continue to anticipate that the MISO Board will approve a Tranche 2 portfolio of projects in the middle of next year. MISO has indicated that they continue to believe that the Tranche 2 project portfolio will be 2 to 3x larger than Tranche 1. And while it is premature for us to know whether exactly what projects might be in ITC footprints, we do anticipate there will be some projects that will be located within our ITC footprints.

And then, of course, out in the outer years, we continue to pursue, again, based on our view, our holistic transmission planning efforts, we really do see opportunities to drive interregional transmission projects. These would be projects that intertie between RTOs either for the benefit of regional transmission or in order to facilitate the interconnection of more renewables. We're working diligently with both MISO and SPP on projects that are referred to as JTIQ projects. And then we are hopeful that the projects will be realized in the future with SPP. So we see those as longer-term opportunities.

And then, of course, we're always opportunistic around other transmission opportunities and we continue to remain diligent and focused on the marketplace and other opportunities that may transpire.

Certainly, Dave touched on this. And certainly, first and foremost, on our mind at ITC is customer value and affordability. Ultimately, it's so easy to be focused on the cost of transmission on that side of the equation. But perhaps what's even more important is the value that investment in transmission brings to customers. And so we have doubled down on our efforts this year to be focused on identifying, communicating, articulating, calculating the value that investment in high-voltage transmission brings. We certainly know that obviously, having a robust regional reliable transmission infrastructure can enable access to lower-cost generation resources as well as allow the dispatch of more efficient energy resources. And of course, that's an important part as you think about when you look at the total bill that a customer receives not just focused on the transmission component.

And obviously, as we think about the MISO-LRTP projects based on MISO's modeling, LRTP Tranche 1 projects are expected to produce over $17 billion of avoided localized generation costs by bringing more efficient, cheaper generation online and up to $37 billion in total benefits. That's for a project portfolio that costs $10 billion. And so you can see the leveraging impact that the investment in transmission has.

Also at ITC, we have our own innovative tool. We refer to it as our market analysis and congestion evaluation tool. It monitors and mitigates congestion in our own footprint by, for example, looking at how we schedule outages, timing of outages and how quickly we can restore service. And so to date, we've experienced over $600 million in identified savings through this tool. But it just, I think, helps to demonstrate and amplify our continued need for investment in transmission to continue to drive value to customers.

Obviously, at ITC, we're very focused on our cost management practices. We are well under the inflation in terms of our O&M and A&G costs, and we continue to find every opportunity to save dollars and drive cost containment practices across our business. We're even looking for federal grant opportunities under the IIJA to help offset the cost of transmission for the benefit of our customers. And as I mentioned, we're going to continue to be actively engaged with all of our economic development agencies to find new opportunities for economic development. We're absolutely convinced that many of the plants, the announcements have been a result of our top quartile and, in some cases, top decile operating performance in our footprints.

So with all of that being said and in summary, let me just say is that as we embark on our largest, most aggressive 5-year plan ever, I'm just also reminded of how critical and how significant our role is in meeting our future energy goals. Transmission is the key enabler, the key facilitator to realize our clean energy future. Transmission is the key for other industries and companies to achieve their clean energy goals. Transmission is the key to electrify our transportation sector and every day transmissions the key to delivering safe, secure, reliable and affordable power. Certainly, our place and position is profound, and the opportunity and our ability to execute on this plan has never been so critical. We are well positioned now and into the future through our geography and wind-rich regions are the favourable RTOs that we belong to, our economic development opportunities, our best-in-class performance and our track record of execution, results and performance. So with that, I'm going to turn it over to Susan, and thank you so much.

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

Well, good morning, and thank you, Linda. Adjust the microphone here. Well, good morning. It's great to be here. Great to see everybody in person. This is my first Investor Day. So excited to be part of it. Getting to the slides here, so just to give an overview of UNS, we're a vertically integrated electric and gas utility in Arizona. And that includes our largest subsidiary, which is Tucson Electric Power, which is a vertically integrated electric utility. We also have 2 smaller utilities, UNS Electric and UNS Gas. We serve about 700,000 customers in Arizona and we're largely regulated by the Arizona Corporation Commission as well as -- which has -- as you probably know, historical rate mechanisms and also our transmission assets are regulated by FERC.

So with a rate base that's expected to reach nearly $7.6 billion next year, that puts us at about 20% of the total Fortis rate base. At UNS, we are keenly focused on exiting coal, particularly at TEP and transitioning to a clean energy future. But there's more to our story. I like to share how we're focusing on our core utility business through operational excellence, through promoting economic development in our service territory, by investing in infrastructure to ensure our reliable service and maintaining a strong local community presence. All of these are key to our strategy.

And today, I'd like to share some of our key initiatives to talk about the drivers of our capital growth as well as some of the trends we're seeing locally in terms of that growth and also some regional economic development and the improving regulatory environment. I'd also like to talk about how the Inflation Reduction Act is going to benefit our utilities and our customers in Arizona.

So over the next 5 years, UNS is investing $5.2 billion in our systems. Again, that's our largest capital plan at UNS as well. And this capital plan includes over $2 billion for Energy Resources, which includes energy storage, renewables and other investments that are associated with our exit from coal. Additionally, we have planned $1.4 billion of distribution infrastructure, which is focused on resiliency and modernization of our grid. We're also expected to invest $1 billion in transmission with the remainder planned for IT, general and other capital investments. So this $5.2 billion capital plan represents a $600 million increase over last year's plan, which is a 13% increase.

And at a high level, the drivers are growth. We've seen some increased needs for energy resources as we're exiting coal, but also meeting new capacity needs, which I'll talk about later in terms of customer growth and economic development in the region. So in aggregate, we expect our rate base will increase from $7.2 billion today to $9.5 billion in 2028, which is a 6% average annual growth rate over the period. And while some of this rate base is subject to regulatory lag, over 90% of it is already in our 2023 rate base. And further, the $1 million that we'll be spending on transmission, of course, is subject to FERC regulation, which does not subject to regulatory lag.

So let's talk about growth. We've seen some strong customer growth at TEP with a trend upwards of over about 1%. And we're seeing strong regional growth for all of our utilities. And TEP continues to experience growth in terms of peak demand, and we expect to see that going forward as well.

So we're also seeing regional economic growth. And at UNS, we're really focused on how we can facilitate economic development, how we can attract new businesses and expansion. And part of that is making sure that we have the workforce that can accommodate that growth. And so investing in workforce development as well as regional partnerships. In fact, we're seeing a variety of segments that are augmenting the growth in this region. And that ranges from mining to battery manufacturing to EVs and other business segments that are really accelerated or supported by the Inflation Reduction Act.

So as shown on this slide, we're highlighting some of our larger projects that are coming online. The American battery factory is a gigafactory that we're building in Tucson and that's expected to be 100 megawatts of load. As well, we've got the Hermosa Mine down near the border in our UniSource electric territory. And this is a mine that will provide zinc, lead and silver to support all things of electrification.

So as we're seeing this customer growth trend and the regional economic development, we're recognizing that this is going to require quite a bit of investment in our systems. So that's all of our systems, distribution, transmission as well as our energy resources. So we talk about this clean energy future, and that's a big part of what we're focused on here at UNS. And TEP is certainly at the forefront of that. So while our current business plan is based on the 2020 Integrated Resource Plan, I'd like to highlight that we're in the works of finalizing our 2023 integrated resource plan, which will be filed in November. But based on this 2020 integrated resource plan, we're assuming that over the next 5 years, we're going to invest in 1,000 megawatts of owned generation. Now compared to the 2023 to 2027 capital plan, that represents a 600-megawatt increase in our owned generation. But this is subject to change, of course, as we finalize the 2023 plan the integrated resource plan as well as all of our projects have to go through an all-source RFP process.

So these investments will help ensure that we do make this exit from coal as we make our clean energy transition, which includes our next major coal plant closure, which is Springerville Unit 1, which is a 387-megawatt coal unit. And that will happen in 2027. But we want to make sure that we're doing all of this in a way that supports safe, reliable and affordable service for our customers throughout the transition.

So let's talk about tax incentives. We've seen with the passage of the Inflation Reduction Act in 2022 that there's been an extension and an expansion of tax credits that are really expected to be beneficial for our customers. And at the same time, have leveled the playing field for utilities so that we can compete and actually invest in some of these projects. So from UNS perspective, we anticipate that the tax incentives are actually going to help us kind of fill that gap with regulatory lag so that we can start recovering on our investments sooner as well as overall, of course, lowering the taxes that we'll pay over the life of a project. And additionally, as I mentioned, we'll be able to compete for these projects because the build-to-own tax incentives are transferable.

And from a customer lens, this is all great news because you've got the investment tax credits, which are available for battery storage, solar and wind projects and the production tax credits for solar and wind projects. All of those tax incentives are going to help lower our customer bills. So for the investment tax credits, we're expected to -- it will reduce the rate base, of course, as we build these projects. And take, for instance, a project that we're on the verge of signing contracts for part of this all-source RFP process. We're signing a contract with an EPC to build out a 200-megawatt battery storage project for TEP, which will be owned and operated by TEP. So as we build that project, it goes into service in mid-2025, we expect by 2028, that we'll accumulate $100 million of investment tax credits that get pass, of course, to our customers.

And with respect to the production tax credits, we'll be able to reduce the cost of service for the energy that we're providing to our customers. So for example, our 250-megawatt Oso Grande wind project that went into service a couple of years ago, we're expecting to realize anywhere from $20 million to $25 million in production tax credits annually, which will be passed on to savings to our customers in reducing their bills.

So what's next? Beyond this 5-year capital plan, we're expecting to continue to see growth that's obviously supportive of our clean energy transition and in meeting the demands of our customers and this growth that we're seeing in our territory. So that growth will be sustainable through 2035. Notably, I mentioned our 2023 integrated resource plan that we're going to file in just a couple of months here. We're expecting to see additional capacity needs beyond what we've seen in our previous plans. And that's -- after we close Springerville Unit 1 in 2027, which is part of the original plan.

But we're now seeing growth in the area as well as the market, the liquidity of the market just isn't there, and so we need to make up that difference. So while we're still assessing the impact, our initial take is that it could be upwards of between 500 and 1,000 megawatts of incremental capacity that's going to be required. So our teams, of course, still evaluating the energy resource options and all of this in the framework of our commitment to provide safe, reliable and affordable service for our customers. But beyond 2028, we see that there's an incremental investment opportunity between $2 billion and $4 billion through 2035.

So in Arizona, as a fully regulated utility, we're cautiously optimistic about the positive regulatory tone that we've seen from our regulators. We've always had good relationships and achieved good outcomes, our constructive outcomes with the ACC, but we're seeing some improvement on several fronts. So first, we're seeing timely decisions, which is so important. We're also seeing support for timely recovery of our fuel and purchased power costs. As we saw through this last rate case and our PP -- purchase power and fuel adjustment cause was challenged, but ultimately supported in that decision. And last but not least, we received a balanced outcome for our rate case of TEP just a couple of weeks ago. So just to talk about a few things that are the major components of that rate case, we had a $900 million rate base increase approved. And that translates into $100 million of nonfuel revenue increase. We also saw our ROE go up from 9.15% to 9.55% and in Equity thickness of 54%, which is up a little bit from our last rate case.

So to conclude, we are a dynamically vertically integrated utility. We have a really strong 5-year capital plan. We're able to execute on that plan. And all of this is permitting us to make our clean energy transition to exit from coal and to meet our carbon reduction targets that we are strongly committed to. And we want to do all of this in a way, of course, that we can provide safe, reliable service and maintain affordability for our customers. So with that, I'll turn this over to Roger.

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

Thank, Susan. Good morning, everyone. Good to see so many faces after a few years away and a special thanks for those on Vancouver time, who were up very early today and who are participating. Yes, Maurice, hopefully, your flight was easy yesterday.

So just we'll quickly go through what's going on in BC. For those who don't know BC as well, but most of you do, it is integrated electric utility vertically integrated as well as a gas utility, where about 75% of our customers and our assets on the gas side and 25% on the electric side. On the gas side, we are both transmission and distribution as well. We have about 51,000 kilometers of natural gas transmission distribution lines and 7,300 kilometers of electric T&D lines. We also run 2 LNG facilities on -- one on the Vancouver Island and one on the Mainland of Vancouver. And we are the largest energy provider, end use energy provider in the province on an annualized basis.

And BCUC is our utility regulator in BC. So it is a dynamic jurisdiction in many fronts. We'll talk a little bit more in a bit on the policy direction of BC. But we do have a number of key initiatives over the next 5 years. Key to that is execution of our capital plan. We'll talk a little bit about that. We do have a fairly heavy regulatory agenda. We are about to file -- or working on filing our next multiyear rate plan, hopefully looking for a 5-year rate plan there. We have a number of major capital projects still in front of the regulator, the Okanagan capacity upgrade project as well as the Tilbury Tank Expansion. And obviously, working with the government as they take the CleanBC policy and turn it into legislation, regulation over the next few years.

And as well, BC is at the forefront of indigenous reconciliation. So we have a very big footprint working with a number of indigenous communities across our province.

Again, we have a fairly strong growth plan, much of that focused on transition -- energy transition to lower carbon solutions, but also quite a bit focused on reliability, resiliency, system adaptation as well, we have a fairly big number of Capital projects, major Capital projects, including advancing some LNG opportunities.

As far as locally, what's going on in BC, again, CleanBC road map, we'll talk a little bit more about that. That's a fairly significant piece of policy in BC. We see a number of indigenous communities focused on participating in energy projects we signed last year, an equity investment option with the Musqueam Indian Band for our expansion of our Tilbury LNG site. We have a number of agreements across the province with indigenous communities, who are participating in one way or the other on energy projects.

We'll get into a little bit on the Electrify City of Kelowna case study, which I think is an interesting study to understand energy transition from a jurisdictional perspective. From a macro perspective, what we're seeing really is much the same as everyone else has seen inflation, customer affordability focus as well. We are just over a year out from the next provincial election, which will focus the policymakers on these issues even more.

Just quickly, we finally got our cost of capital outcome a couple of weeks ago. We were in that process for a couple of years. It was a generic cost of capital. It's got a number of stages to it. The first stage was dealing with the cost of capital for FortisBC Energy as well as FortisBC Inc., the gas and electric utility. We've got a good decision, I think, on the ROE front, 9.65% for both utilities. That really reflects market conditions that we've seen over the last number of years.

Equity thickness, a fairly good increase for FortisBC Energy from 38.5% to 45% and increase of 40% to 41% for the electric side. That's really driven by the business risk that we're seeing in BC. On the gas side, it is with energy transition, we are at the forefront of significant change. So business risk from a policy perspective. But as well for both gas and electric energy transition is going to require significant infrastructure investment. That's not getting any easier in BC with indigenous rights and titles. That is an opportunity, but it does add an additional risk as well as just generally the pathway to get energy infrastructure projects approved have been becoming more difficult over time. So I think it's the regulator recognizing that -- there has been a shift in business risk. So I think it's a fair decision that reflects the operations -- the operating context in BC.

So just -- I'm going to spend a little bit of time on the policy environment in BC. And I think it's really important to think about energy transition based on the jurisdiction that you operate in. I think a lot of times you hear about energy transition, you hear about how cheap solar and wind, is you hear about the role renewables is going to play, and that's all true. But I also think you have to understand the jurisdiction and the energy systems incumbent in that jurisdiction when you're talking about energy transition.

So in BC, if you take an annualized basis, BC Hydro and ourselves, gas and electric combined, were similar in what we deliver over an annualized basis. We deliver a little bit more energy. But when you look at winter peak load, which BC is still a winter peaking system, taking 2 data points, December -- coldest day in December of 2022, BC Hydro sent an all-time winter peak on the hour of December 27 is about 10,900 megawatts. The gas system on an electric equivalent that same day, that same hour delivered about 20,000 megawatts of energy equivalent. You go to 2022, we had a fairly cold 3-day period before Christmas. Pretty much everyone did, if you remember the winter storms of 2022 and trying to travel in that time frame. But BC Hydro sent another peak record for winter is about 10,950 megawatts -- about 40 to 50 megawatts higher than the previous year's peak. At that same hour on December 24, we delivered close to 21,000 megawatts in energy. It was about 1,000 megawatts more than the previous year's peak.

So when you think about what you're trying to solve in energy transition, there is an energy aspect to it, but there's a significant capacity and peak energy aspect. And that's where, from our perspective, we're really focused on four ways to help decarbonize. One is, broadly speaking, a significant focus on energy conservation, bringing overall energy use down. We see the gas delivery system as critical to energy transition. So we're looking at expanding renewable and low carbon energy offerings in the form of renewable natural gas, eventually hydrogen, syngas, Lignin based fuels. Obviously, a big focus on electric vehicles, BC, I think, is the fastest growing -- well, it's the highest rate of penetration of electric vehicles in Canada, up there, top 3 for sure, in North America, as well as looking at options for RNG in transportation for heavy duty as well as hydrogen. And then obviously, using LNG for marine fuel decarbonization.

So from our perspective, we're really trying to look at how do you decarbonize energy, but make sure that the system is there for peak energy delivery. And that's something that is not as easy to transition away from when you think about how the system actually works. Our capital plan, $4.9 billion. It's up $300 million from the last capital plan, that $300 million increase is really focused on 3 areas. We do have increase in some of our major projects just through project refinement as we get closer to building those projects. We've had an increase in some of our LNG projects around Tilbury, and we do have some more investment focused on lower carbon energy solutions. The plant itself, just over half of it, about $2.6 billion of it is really focused on system reliability, resiliency, integrity dealing with climate adaptation and mitigation. Then we have a significant component focused on LNG-related projects and then our sustainment capital overall, 6.5% growth rate on the capital plan.

So just back to the policy environment. So CleanBC is the sort of flagship policy in British Columbia. It was introduced in October of 2021, so just about 2 years ago. It hasn't yet been turned into specific regulation. There are a number of policy pieces coming out of CleanBC. BC, as a jurisdiction has always been at the forefront of climate change, first jurisdiction in North America to have a carbon tax, one of the first to have legislated GHG reduction targets. So it's not something that's new for us in BC dealing with ambition on climate from policymakers.

CleanBC is -- so provincially, it's 40% reduction in 2030 compared to 2007 baseline levels and then 80% by 2050, that 80% target we expect to be moving to a net zero target with this government in the next year, but it has not yet been announced. But our focus right now with CleanBC is really just 2030. So CleanBC has introduced a number of pieces there to get to this level. The main one for us is the Greenhouse Gas reduction standard. And it's really a cap on gas utility customer emissions. On a blend basis, across the sectors we serve, it's about a 47% reduction by 2030. When that was announced in 2021, just previous to that, 3 months earlier in July or June or July of 2021 we worked with the government and announced the Greenhouse Gas reduction regulation, and that allowed us to acquire up to 15% of our gas throughput from renewable gases. RNG with landfill wastewater treatment, agricultural waste, but also hydrogen and syngas. So that's about 30 Petajoules of throughput by 2030, we're at around 18 Petajoules out of 31 Petajoules agreements so we're just over halfway there. We've got some opportunities in the pipeline as well on future contract, and we're starting to look at hydrogen. So pair it up an emissions cap, the government does recognize the value of the system, so looking for us to be -- alternatively bring on more and more lower carbon gaseous fuels. I think any credible plan to 2050 does see gaseous energy as critical to energy transition. I think the challenge isn't so much 2050, it's really about what can you do in the next 6.5 years with 2030 targets coming at us very quickly.

The last piece is you're hearing a lot about bans for sort of -- for lack of a better word. In BC, they're not quite bans on natural gas. There's been some municipalities who have raised that idea. What the BC government has done is introduced fairly aggressive building codes and standards, and they've deferred those to the municipalities to adopt those anytime before 2030. So some municipalities are moving that time frame up. And effectively, it's a very low carbon intensity on the load for buildings. The way you get there is obviously electrification, but we're also looking at things like hybrid heating system. We're looking at renewable gas as the fuel to meet the carbon intensity level of the highest step code of the building standard.

So all that's to say is that we're fairly active with the government. Our pathway to address this, again, is expanded energy efficiency. We just filed an application with the BCUC the next 4 years, about $600 million of energy-efficient spending in the gas utility. Again, focused on hitting that 30% renewable gas target by 2030, further expansion in both electric vehicle, but also hard to decarbonize heavy-duty fleet with hydrogen, RNG, other gaseous energy.

And finally, waiting for a decision on our Tilbury Jetty to expand our marine fueling opportunities with LNG in the Port of Vancouver. So as part of our proof point, if you will, on how we're going to approach clean energy transition, we are the gas and electric service provider in the city of Kelowna so for those who don't know BC that well. It's a city of about 150,000 people in the interior of British Columbia. Again, we are the gas and electric service provider. We have about 40,000 gas customers, which is a meter at a house and about 66,000 electric customers, so basically cover the city. We have the consumption data for both gas and electric customers on a daily basis. So we overlay that into a single model, and we looked at the energy use based on temperature over a 365-day period. We then modeled heat pump efficiency at different temperature points based on the latest heat pump technology. And what we would -- what we've seen -- and this wouldn't surprise anybody who has a heat pump, who lives in a cold climate, I see some people smiling. They grab their sweaters.

Heat pumps are great, minus 10, minus 15, they still work fairly well. But for those really cold days, which we have in BC, we had minus 26 at the Kelowna Airport last year for 3 days. Heat pumps basically drop off in -- their baseboard. So what we saw in our modeling is that on an annualized basis, heat pumps are great. They reduced our overall energy use. But in the city of Kelowna, our winter peak is about 350 megawatts, our gas peak is closer to 900 megawatts on an equivalent basis.

When you run this scenario with zero gas, you see the electric peak with current heat pump technology go from about 350, 400 megawatts closer to 1,300 megawatts, so a tripling. So when you think about an annualized energy basis, the energy transition is fine as a one-to-one. When you look at a peak energy transition, it's more like 2 to 3x, and that's where infrastructure becomes critical to solving the energy transition issue.

For us, in Kelowna, you'd be looking at very preliminary estimates of infrastructure spending on generation as well as transmission capacity, probably close to $2 billion to solve this situation for a city of a couple of hundred thousand people. So you extrapolate that across a jurisdiction, especially one that has a winter peaking system, you start to understand why infrastructure becomes critical. And we think that the Gaseous Energy System still has a critical role to play in energy transition.

Even though we may be having less throughput, we think the way we can manage the overall system needs gas and electric on an integrated basis will be critical to meeting the provincial climate ambition.

So just finally, last slide, just beyond the capital plan. Again, we are looking to expand renewable natural gas, then into hydrogen. We are looking at a couple of test sites for an industrial site closed loop system as well as a small residential test site for hydrogen over the next couple of years. We are looking at potential further expansion of liquefaction at Tilbury marine fueling. And then finally, the Pacific Northwest is becoming market constrained for natural gas at the Sumas border. So we are looking at whether there's an opportunity to expand transmission capacity in the region. That's still a few years off, but it's something that we went to the BCUC last year. We got a deferral account approved to allow us to spend some prefeasibility work consultation analysis on what a new route might look like to bring gas into the Lower Mainland into that constrained market. At that point, I'm going to invite Jocelyn up.

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

Thank you, Roger, and welcome, everyone. Welcome to our province. And I don't want you to leave here thinking that this is typical September weather. We actually can have good weather some days, but you're going to get to enjoy this for now. There are some joys of going at the podium. The team has done a great job of laying out what we plan to spend for the next 5 years and the capital plan that we have. So what I'm going to touch on today is really focused on what financial supports we need to do this plan and also a little bit on the regulatory backdrop as well. And to frame the discussion, you have heard me say a number of times about our objectives, they're really not changing as we look forward.

This is about being focused on doing what we say we're going to do. Fortis has a long history of that. And it's important, it might look easy or easy to some to actually implement this organic growth strategy, but it takes a big effort to execute on such a big capital program. And we're doing it with the lens of staying laser-focused on our balance sheet. We think it's important in these market times. And we're maintaining -- setting ourselves up to maintain our investment-grade credit ratings, which we've always said is very important to us. So none of that is changing. We've been doing it in the past. We're going to continue to do it in the future. And all in all, to deliver the 4% to 6% dividend growth guidance that David talked about earlier.

So you have to give me a moment, and let me just walk back in history a little bit. And it's hard not to reflect on an Investor Day in 2018, just 5 years ago when we were in front of you talking about our capital program, it was $17.3 billion. And today, if you flip forward in terms of what we've actually spent, it's $20.2 billion. So almost $3 billion more from the 2018 Investor Day, of what we've actually spent, a little bit of forecast in 2023. And so when you look at where this is coming from, this is coming from the transition side of the business, which Linda talked about, it is also coming from bits from Arizona, which Susan talked about in terms of now developing out the IRP. We've also seen some additional investments in renewable gas that Roger talked about. All of that has been good pressure on a plan that we set 5 years ago.

One of the big questions that I always get is, so are we going to keep outperforming our capital plan. So I'll hit that one now. I do think we're all getting to better understand what it's taking for the clean energy transition. I think all of us are. So we're getting better at understanding and we're starting to see movement even on the regulatory side with these plans in development of tangible projects. And as you know, the way we set our capital budgets is truly from the bottom up.

We don't tell the utilities what they spend, they tell us based on what they see. But we do take a view that we're not speculative. We only include in our capital plans, what we believe we can actually get through from a regulated point of view, but also from an affordability point of view. So all of that is taken into consideration. So you're not going to see Fortis put in big projects that they haven't truly vetted in terms of understanding how and when they can get it through the regulatory front.

So we've had a very strong track record of delivering and outperforming and we're quite proud of that. Again, looking back 5 years, so we've grown 6.8% over the last 5 years. But I would say a big part of the last 5 years as we've been growing. We've been, as I said, laser-focused on our balance sheet. Just last year, we put an annual dividend growth guidance of 4% to 6%. That gave us flexibility to fund more internally, particularly in these markets. Focus on the balance sheet has been a center of a lot of discussions. And I know you know all of this, but we did sell Waneta, which is a part of our nonregulated asset base. We did an equity issuance in 2019. Just recently, we announced the Aitken Creek sale, which was one of the last bits of the nonregulated portfolio that we have. And that one is still scheduled to close by the end of the year. So we have been focused on moving our balance sheet to set us up to be in a good starting position as we embark on this $25 billion capital plan.

And from a credit metrics perspective, we have improved them by 100 basis points each. And that's not an insignificant movement for a company the size of Fortis. So again, it's been a focus area where we're showing that we've made progress, and it's a good starting point as we now then pivot to looking forward. And so -- my point of showing this slide is when we look at where is the incremental capital coming from, we've talked about what is coming. This is about when it's coming. We are seeing -- yes, it's somewhat centered or focused to the latter part of the plan, and that's mainly associated with the LRTP that Linda talked about.

But we are starting also to see some growth in the earlier years. Again, Susan mentioned a battery storage project that is coming to fruition in Arizona. So we're not -- it's not all dumped in the last year. It is spread out somewhat in the latter years, but we are starting in 2024. And I'm also going to mention here because Roger talked about it briefly as well. So this is a $25 billion capital plan upon which for BC in particular, we now have to fund with a 45% equity in BC, which is we were we thought that, that order was -- I'm going to say balance, it was a good order, we think, for BC, but we do have to recapitalize BC. And it's a good thing. We've been saying for a long time, particularly in Canada, the equity layers are too low. And for the reasons Roger explained, we are seeing that the regulator now has sort of concur with that evidence and has raised its equity layer to 45%.

So we also are required to recapitalize BC in the early years of the plan that is effective for 2023.

So this is the slide. This is the funding slide. And so we've been -- we try to be very clear with respect to how we're going to execute on our funding. And if you look at the pie chart here, the ratios have changed slightly. Nothing materially. And I will tell you that there are times I wish I put a range on this because you can't pinpoint cash flows down to that point over 5 years. But we have seen just a little bit of a tick down in cash from operations. And really, that's -- we are paying more interest. That's not a surprise to anyone. We are also subject to minimum tax, which we've talked about. And we are significantly growing, right? We're growing. And when you're growing cash flows can move around, particularly in the regulatory setting with how and when we recover from customers. But looking at the pieces of the puzzle, they are very similar to what you would have seen last year.

I'm going to bring your attention, which is I know what we want to talk about is the equity piece of this, which is about 11% of the capital plan, which is about $2.7 billion. We do have a fairly healthy DRIP program that's still in play, and we're getting about $400 million from our DRIP program a year. We have seen DRIP participation vary anywhere from 33% to 38%. But, we have a very strong participation in our DRIP program. So as I said, we're getting about $400 million from that. So without making assumptions on the future, you can get $2 billion from your DRIP, and we have some employee share plans that can probably give you a couple of hundred million.

So looking at -- we have equity needs of $2.7 billion. You will have seen from earlier today that we just put in play an ATM program. We had one in past years. We turned it off after we sold Waneta, and we did the equity issuance. But we announced this morning that we have a $500 million ATM program. So the big question is how do we plan to utilize this ATM program. So coupled with the slide I've shown earlier with respect to -- we are seeing some capital -- increased capital expenditures early in 2024. We are also having to put down potentially $300 million to $350 million of equity down into FortisBC that doesn't necessarily reflect all equity at Fortis, of course, but we have to provide that to FortisBC.

So when you put all that together, we do plan to start utilizing our ATM in 2024. We estimate right now, and I'm using this word very boldly approximately $100 million. And then we'll continue to go forward on that basis, but we're going to monitor DRIP because DRIP can change. And as I said, we do have some flexibility within the DRIP, range from 33% to 38% that can give you another couple of hundred million. Either way, the ATM is meant to be a supplement, and we're getting to $2.7 billion. If we find that DRIP is very healthy, and we're not having to use the ATM, then we will adjust. That's the beauty of an ATM program is very flexible and at our discretion with respect to how we use it.

So -- and when we look at how we sort of set those parameters, it was on the same vein of what I talked about earlier. This is about keeping our balance sheet whole when we're looking at whether it be recapitalizing BC or investing more in the grid, we're looking at keeping our balance sheet whole. So it's been a focus of ours, and we don't feel that in this environment that we're creating more flexibility than we had in the past. We're still on this track. Not to -- and I'll show it in a little while with respect to our metrics in terms of how they're improving, but it's all done with the vein of keeping our balance sheet whole. And then also I will just quickly touch on the fact that 4% to 6% dividend guidance, we have the flexibility within that pie chart is not that wooden I guess is, whether it's 4% or 6% or in between this is the approximate amount of equity that we need to support our balance sheet it's not gonna materially change our funding strategy from one end of that range to the other.

And then also this dividend guidance also supports, and we've talked about this, the tapping down of our dividend payout ratio. We were pushing high 70s, and we've said that with this dividend payout, we expect to over time particularly with this growth that we've talked about here today, we're going to tap down that payout ratio over time to more historical norms.

So we're still on this path and this funding plan gets us there. Quickly I want to touch on the investment-grade credit ratings that we currently have, and we have shared this plan with the rating agencies and I never speak for rating agencies, but there were no surprises in this plan, right? We're still on the organic growth strategy, our metrics are similar to what we had shown them in the past. So we're not taking anything backwards. We're keeping our promises to what we have shown in prior plans.

You do see -- do you want to touch on this. You do see some tick down in like the Moody's CFO to debt. Again, this is our first year for the alternative minimum tax, which we said was about 10 basis points and interest is also playing in -- the higher interest cost is also playing into the metrics. But when we look forward, I do feel very confident in our abilities to have the average Moody's CFO debt and the S&P FFO to debt around that 12% level. There is a bit of a grade up over the 5 years, but this is a full expectation based on the plan that we have, which is very executable and a funding plan that we have that is very executable. So no real surprises on coming out of sort of our funding strategy and how we're set up for the future.

Did want to touch briefly on the debt maturities. This is a big topic, obviously, in this particular market with interest rates moving around. From a regulated utilities perspective, clearly, ultimately, over time, higher interest costs are recovered through customers through regulatory mechanisms or through when they set their rates. With respect to the holding company, of course, they are of more interest in terms of we don't recover those through directly through to customers. But when you look at the maturities profile that I put on the screen here, you will see that we do have limited debt maturities from a holding company perspective over '23, '24 and '25. We have about $500 million that we believe is that are in maturities and you'll recall that ITC had actually done a number -- a bigger financing earlier in the year, which, in essence, prefunded some of the maturities you're seeing in '24.

So I guess the takeaway for this slide is that we've substantially cleared a lot of the debt maturities out through 2026. But at the tail end of 2026, we do have higher maturities coming due. And we are paying very close attention to the market. We will be opportunistic. We are looking at options, and we know that we have these maturities coming, but we're certainly watching the market.

We do have preferred share dividend rate resets as well. Clearly, the rate reset rates will be higher. But they still -- and I can't be any clearer than this. They're still efficient for us. They're a big -- they are a part of our portfolio, and I accept they remain attractive for us today. So that's with the dividend rate reset.

My point on this slide is to say, it feels good to be here today with the TEP rate case behind us with a positive outcome and the GCOC proceeding in BC with a positive outcome. So that clears away to pretty big regulatory applications. We do have Fortis Alberta that's left to come before the end of this year with the GCOC proceeding and a PBR proceeding. And we're still on track to get that order by the end of the year. Central Hudson recently filed a rate case, but it's in their normal 3-year cadence of a rate case, and ITC's applications remain ongoing with no news, but really good to stand here and to have 2 with what we call positive outcomes behind us.

And you got to give me this slide as well because I've been years in the other direction and talking about when will we start to see a change in ROEs now that we're seeing a change in interest rates. And so I just -- I chose 2018 because we've been going back 5 years. So you'll see that the weighted average allowed ROEs for us based on our -- as a percentage of regulated rate base went from 9.7% to 9.8%. Over that time period, ITC actually had an ROE decrease. So when you even compare to our ROE from last year, it was 9.5% to 9.8%. And that is all driven by TEP and BC.

The equity thickness, same thing. We've gone from 48.4% to 50.9%, again driven by TEP's decision and the BCUC's decision. So we're all waiting anxiously for other utilities to actually get in front of the regulators. Alberta is the next decision. I mean, we can't say what the Alberta regulator is going to do. But clearly, there has been a shift. There's been a shift and a recognition of risk on the equity thickness side, but certainly, the interest rate environment on the regulated returns that we're seeing.

So I will conclude by just summing this up. We have a pretty impressive $25 billion capital plan and a funding plan that supports maintaining our investment-grade credit ratings and supporting our 4% to 6% dividend growth guidance. And it's -- while it's more of the same, $2.7 billion is pretty substantial, and the teams have done a great job at reflecting on their plans and understanding the needs for the clean energy transition. So with that, I will turn the call back to -- no call. I will turn the podium back to David. I'm used to a quarterly earnings call.

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

Thanks. Let me answer -- my favourite question, why invest in Fortis? So let's review what we heard today. $25 billion capital plan focused on the right type of investments, focused on organic growth for a cleaner energy future. That drives a 6.3% rate base growth, and we know we can do that because we have the track record of execution, that rate base growth supports our dividend growth of 4% to 6% guidance as we go all the way out to 2028. So you have that on 1 hand. And on the other hand, you have a diversified regulated portfolio of utilities that have a phenomenal ESG story and getting even better, and top rung governance.

You put all that together, and that's a risk return investment thesis that is I'll say, more than compelling, it's enviable. That's the -- this is the exact spot that we want to be in for not just today, but for the future. So with that, we're going to close it up. And have Q&A here for the folks in the room. If you remember -- if you have a question, we'll pass you the mic. Just announce who you are, so the virtual attendees can hear you. And then Stephanie will provide any questions to us that we hear from the virtual group. And feel free to ask me or anyone in this room, except maybe each other to answer some of these questions. So Rob looks like you're first -- sorry, I already busted it. You're supposed to announce who you are, Mr. Hope.

QUESTIONS AND ANSWERS

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

Robert Hope from ScotiaBank. Thanks for the day, everyone. It's been great. First question is on the financing plan. So we have the FortisBC decision behind us. The 2 variables I see in the financing plan would be what happens in Alberta as well as what you want your credit metrics to be, because you do have the ability to accelerate that. So when you take a look at those 2 variables, how do you think the financing plan could change? And do you see value in accelerating the FFO to debt to that 12% earlier, which would come at the expense of some incremental dilution, but the market is paying for stronger balance sheets?

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

Well, Rob, I like your enthusiasm around the fact that Alberta could change our funding plan enough. Yes. So I'll be happy if that happens. I don't believe that it will be material enough to change. But again, we'll wait to see the decision. And again, the beauty of the ATM is we can flex it if we need to or not need it, right? So that's why I like the ATM particularly.

So with respect to pushing forward our metrics faster, I don't see any benefit. I think I've said this publicly before, when it comes to the Moody's rating. I think that's a factor of time, and we're doing the right things, and we've made leaps within that metric. When you look at the FFO metric for S&P, we're going to get there, right? Like this is not -- we're not -- I haven't shown this, but we're not waiting until year 5 before we actually get that hundred basis points cushion, right, with that metric. So I don't feel the need to do any more any faster. This is a plan, as I said, we shared with them. There's no surprises. We're fundamentally on track. And I don't see any benefit of expediting it.

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

And then maybe as a follow-up for Dave. You've been talking about the organic growth profile and the growth story for Fortis for a number of years. However, the asset M&A market seems to have changed over the last couple of months or years here with some transactions that we'll call it, lower valuations than before. If the market does change, could we see M&A come back on the radar for Fortis? Or is it still on the organic?

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

Well, clearly, our focus has been and will continue to be on organic growth, but we will always be opportunistic looking for the right set of circumstances that make sense. I mean we're fiduciaries, right? We're trying to find value. So we're always trying to find that value. It's hard to say. And as markets have changed around so dramatically over the past couple of years. I think what we have done and our focus on making sure that we're sticking to our knitting and doing that organic growth has paid dividends literally and figuratively for our investors. So that will still be the focus, but we never take our eye off the ball or out of the markets.

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

Pat Kenny, National Bank. Roger mentioned the change in risk profile for FortisBC. Dave, maybe you can just comment on which of your other utilities might be experiencing an uptick in risk profile as well? And then maybe a comment on how that might change your view on potentially selling down a minority interest in any of the utilities?

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

Yes. So I'll put it differently than Roger did because it's not changed the risk profile itself has not changed. We know what the risk profile in BC is. And obviously, policy comes and goes and changes over time and ebbs and flows, et cetera. This just caught up. I mean this wasn't that all of a sudden, our company is more risky there. It's the recognition of what's been going on there and from a going-forward perspective. Remember, those ROEs and equity layers in both BC and Alberta were the lowest in Canada. So it was right that they should come up.

That's obviously the -- and by the way, they're coming up to average North American equity thicknesses and ROEs. This is not like recognizing that all of a sudden, BC environment is more risky than others. It's just recognizing that right level of risk. So we look at that. And of course, as I mentioned, risk comes and goes, administrations come and go, policy comes and goes, but we want to make sure that we're always right down the middle of the fairway, and that's exactly how we're placing our FortisBC companies, making sure that we can stay right down the middle of that fairway that we can, no matter which way we ebb and flow in that conversation around natural gas in its role we're finding a role.

We're finding a role for that infrastructure, and we have to find a role for that infrastructure. That's infrastructure that has been paid for by our customers, we need to bring as much value out of that. That capacity versus energy conversation that Roger had is one that -- I know there's not a lot of people who get and understand that. You all the folks in this room and on this call understand that, but that's a principle that has to get out there in our sector. The importance of that peak capacity, that peak energy that we need and to try to triple an electric system to get that last little bit will not make sense. We can get that last little bit through clean fuels and through clean molecules.

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

Sorry, as a lever for the funding plan, thinking about minority interest divestments versus additional equity?

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

So as far that's -- we obviously have done or are in the process of doing Aitken Creek, but that's not in our current 5-year plan. Again, it's the opportunistic view if there's -- if we find things that are of tremendous value, it's, of course, right to jump on. But right now, our funding plan is exactly how Jocelyn laid it out.

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

Linda Ezergailis, TD Cowen. Just some follow-ups. I want to drill down a little bit more. Maybe Jocelyn, you can help me understand your Holdco debt levels are currently 33%, if we continue to see equity thickness ratchet at utilities? Does that mean that Holdco debt goes up versus maybe the cost of Holdco debt going up, so you might want to ratchet that down. Can you talk about how Holdco debt plays into your consolidated views and what might be going on at the utility OpCos?

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

Yes. So we are -- we have seen, and I'm glad to see the change within BC, not anticipating a whole lot of change in Fortis consolidated cap structure and over time, and we're actually expecting as the utilities are growing, right? And they're investing and they're borrowing to support their investments. We actually expect to see holding company debt to go to more -- to lower levels. right? So -- and I would think -- I would suggest also that it we've made great progress, right? We've started at 40%. We're down to 33%. As we look over the next couple of years, we're down to 30%. So I'm not seeing much change expected, maybe if there's a real paramount shift, right, the only other Canadian utility that I see left really is Alberta, right?

We'll probably start to see it in the smaller utilities, but they'll be hard to move Fortis' dial and ITC just had their cap structure, which is a big component of Fortis. They just have their cap structure solidified at 60%. So we're not seeing that up for debate anytime soon. And we just solidified TEP, which is another big utility. So I think how we've laid out our thinking with respect to Fortis is what we'll see for the next 5 years.

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

And as a follow-up in terms of your strategic outlook, Dave, recognizing that there's no need to -- from a capital allocation perspective to grow inorganically, could there be a case made for a strategic imperative to grow inorganically in terms of within your current geographies, facilitating energy transition through potentially unregulated investments that might not fit quite inside the utility rate base versus maybe JV partnerships et cetera, to enable that and also to keep costs down for customers, might there be some opportunities to maybe acquire utilities within your existing footprint to see some cost synergies and planning synergies, quite frankly?

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

Yes. So that's a good question. So from a strategic perspective and the organic growth that we're talking about, we have. And in fact, we've spent a lot of time, and this team will nod their heads when we talk about it. We spent a lot of time talking about what kind of assets should we be investing in. And we love the regulated assets we call it the green box assets. Those are the ones where we know what we're doing. It's a regulated investment. It's got the right risk return profile. When we get outside that on the edges, and of course, we look at things around the edges. It has to have that right risk return profile for us, not just for us, but what we think you all are looking for as investors.

So we are very careful on what we would like to get involved. And that means we look at things Lake Erie Connector was a prime example of 1 that was actually an unregulated investment kind of looked like a duck, quacked a duck, all the things that made it look like a regulated investment, but it was not. But those -- that was something that we were comfortable in doing because it was part of our expertise.

So there's other investments we've talked periodically in BC about some unregulated LNG type investments. Those things still kind of bubble up around the edges. But unless they fit the risk profile that we're looking for, again, that we think you're looking for, they're going to stay outside of where we really want to make our core investments.

As far as the M&A comes, that's just more of a kind of a more detailed version on the general M&A. Are we looking at any M&A in particular? And what kind of synergies -- well, that would be part of the conversation. There's a whole laundry list of things that we would evaluate when we look at any type of acquisition. And it would have to be -- is there synergies? Obviously, there's a lot of things around ESG and business risk and all those other pieces. Those all go in, but that doesn't make it any different from parked on the back burner than it is right now.

So while there's a lull I just want to -- maybe there isn't a lull, but I'm going to jump in -- so I want to tell you that, that equity thickness in BC is a good thing. I know we're talking about funding, et cetera, overall, so it was a couple of years ago, I sat down with my CEOs and I said, here's what we -- here's the plan. Jocelyn wasn't in the room, Stuart wasn't in the room. And I said, here's the plan. We need to grow to make their job difficult. We need to be able to grow so that we have to look at where are some funding alternatives because that's what we're supposed to do. We're supposed to grow. Having a thicker equity layer is overall a huge benefit for our company. So it seemed like we're getting caught up, and I know I don't want to steal your thunder about all the funding stuff, but that's just what we have to do to keep playing the game as well as we're playing it.

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

Maurice Choy from RBC. Maybe keeping with that theme about wanting to grow, but also amid climate where cost of capital is more expensive these days. Can you look -- parse out the $2.7 billion CapEx increase? And let us know what was the gross increase? And how much -- how many projects do you choose to defer or cancel for the name of affordability or capital preservation?

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

So of the $2.7 billion increase, it was really -- as I'm running through my head on all the different numbers, the $1.4 billion that's ITC, all new stuff. I mean that was net new increases there. The $600 million was a net new increase at UNS. It wasn't -- there wasn't like a bunch of other stuff that fell out of the end of the plan here. There's -- Central Hudson is all new stuff. So there isn't like a net negative in here.

Other than one, as projects roll off, the negative drop of, I think it was about $200 million of Watay because we did it last year, and there's only a little bit left this year. So that's the only thing that it's not like all of a sudden, this big reshuffling and a bunch of projects fell out and these ones came in. All the existing projects other than Watay, which is going along, it's normal course. All the rest of them are still in there, and we just added additional projects.

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

So I guess if more capital projects come along and then shifting a little bit to the funding plan here, I guess, is the ATM now viewed to be the preferred funding solution here? Or are things like discrete equity cognitions or asset monetization? Are those also in the plan? Or how should we look at this?

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

You want say it or me?

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

No. I don't want to say everything goes on the table, but Maurice we have to do that, right? But right now, it is. I mean, even when we compare the pref market, hybrid market. I mean we chose the ATM because it's more efficient for us right now. That could change, right? As if we -- particularly if we see more growth out into the future, that market may change, but everything goes back on the table and we start over and we evaluate what's in front of us. So state -- I hope it's a problem that I have again.

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

I think we've got a question online here.

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

Yes. So I'll ask. We have 4 questions that came through the webcast. So I'll ask them for the institutional shareholders or analysts that cover us that are going to be here in person.

So the first question comes from Kevin Kwan with JPMorgan. So there's quite a large gap in your credit ratings between Moody's, Baa3 and S&P A-. I understand S&P's A-, is an issuer rating while Moody's unsecured rating is BBB, but if you could please walk us through some of the different credit rating methodologies here and do you have a higher target for your Moody's rating?

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

There's a lot of difference between the Moody's rating and the S&P rating, where they use different factors to calculate credit metrics, like Moody's will take into account more changes in the regulatory deferrals, whereas S&P are more concerned about actual interest costs and actual defined benefit pension plan costs and taxes. So there are 2 different calculations. But all in all, I think the assessment of both S&P and Moody's by us, I think they come to the same conclusions, and I don't want to go back in history too far on the Moody's rating, but it did come on -- we got the Moody's rating as we were doing a fairly large acquisition, and we were coming off of a pretty large acquisition trail.

And at that particular time, Moody's, I guess, had -- they were -- it was a wait-and-see type game. And I've said that with Moody's that we had stretched our balance sheet when we bought ITC, we've made large improvements since then. But we're not -- and we talked about earlier about is there a need to do any more on the metric side? No, there's not. And I feel comfortable even with the S&P rating that we've laid out these plans.

The business risk profile of Fortis hasn't changed. And when you think about our -- their assessment of us, it is about -- that we are primarily regulated. We're primarily a T&D company. Those are the 2 checkboxes that you want. And so I do believe we get healthy ratings there. S&P are, like other credit rating agencies, they are looking at the environment of utilities and the risk of utilities, but nothing specific to Fortis. So I think it's there's nothing obvious there and certainly not driving to expedite any further increase in the metrics above and beyond the plan that we have.

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

Great. Seeing that we have about 6 minutes left. So I'll be quick here. We have 2 from Valerie Sacini with Borealis. The first question I'll read because there are 2 different topics. Could you share your key assumptions regarding demand given, one, the potential for a recession in 2024; and two, the impact of energy conservation -- efficiency initiatives across industries and which capital plan will be adjusted first?

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

Yes. So those are parts of each and every individual forecast that our subsidiaries do, energy efficiency distributed generation. That's always been part of the forecast on a load and demand perspective. One is a different -- obviously, different energy than a capacity to get back to the prior commentary conversation between those things. But we're not seeing necessarily any dips from an economic perspective, looking forward to -- if there's a recession at all, a little or big or whatever it might be.

Typically, what we're seeing across all of our jurisdictions is in fact, higher load growth and higher economic development activity and a lot of that's being driven by the Inflation Reduction Act, and obviously, some of the additional benefits we're getting for domestic content as well as security, geopolitical events, et cetera. And this whole basically, call it, reshoring conversation that we're having across North America, but in our specific utilities in particular. So that's all built in here. So this is all based on that. Now obviously, every year, we get different and better assumptions, but that doesn't -- that isn't driving these capital decisions, it's really just driving the sales denominator.

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

So the next question from Valerie, could you please update us on your labour force availability of talent, expertise versus future needs, retention, turnover challenges, salary and compensation, including labour agreements? And what are the top 3 issues in top 3 praises highlighted in the latest surveys of employees?

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

That's -- let me start and then let me know if I hit all those. So this is a perfect question as we sit here today because tomorrow and the next day, we have all of our executive teams from across our entire footprint, coming here at St. John's to talk about exactly these things, not just our strategy, but how do we maintain the great environment that we have for our workforce, how do we continuously improve that? How do we focus on that people and culture piece. So as you all know, we have a large majority -- I wouldn't say a majority, but a large portion of our utilities have unionized workforces, and we have good relationships with all of them.

Obviously, there's a lot of contracts that are up for renewal almost every year given that we have 10 different utilities and then several unions within each of those utilities. But we have maintained our good relationships with those unions. And that has to be a hallmark of how we interact with our individual teams, with our individual utilities. This is another 1 of those things that's squarely in the local bucket, where the management teams and the 3 that you see sitting before you, this is their responsibility to maintain those good union relationships.

That's a message. I'm glad I got to practice it because that's a message that's going out tomorrow because we do see a lot of stress between union and management. But that's -- those are in cases, not in our company, but I mean more broadly because coming off of a pandemic, all the inflation and real cost of living increases that employees have seen, we've always made sure that we keep our employees fairly compensated. So we don't see that big blip. But we know we have to keep that squarely in focus. Any other pieces I want to jump on there?

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

I think that covers the most of it in the spirit of time. We have 1 more online and I think there might be 1 or 2 in the room. So the next 1 comes from Darius Lozny with Bank of America. Under what circumstances would you use the full $500 million of the ATM prior to its expiration in 2024? And do you plan to reauthorize the ATM after the current plan and in December 2024?

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

I hope we are facing something that we don't know today with respect to why we could potentially use the $500 million because I think it comes with growth, right? And I don't see growth transforming that quickly. And to answer the question on whether we plan to renew, yes, I mean, that would be the typical behavior of the ATM.

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

Again, equity pays for itself when you're growing like this.

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

Mark Jarvi from CIBC. Questions for Linda. You talked about -- or on the regulatory slide, at least the Jocelyn had up there about things out there from FERC seems like we're perpetually in a holding pattern around the number of items. Is there anything you can share with us today? It feels like we're moving towards something. Any commentary around where if you had to update base ROEs today given where those parameters are? Does that help people get to decisions sooner than later?

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

Yes. Look, I certainly wish like you that I had sort of the crystal ball, and I have more insight into these sort of pending regulatory matters. Look, I think the fact of the matter is, right, there's a 4-member commission, 2 from each party, not that they vote on party lines, I think the challenge at FERC is quite frankly, getting 3 votes for anything. And so while we recently saw the Generator Interconnection NOPR with a 4-0 vote, which I think was promising. I know there was a lot of hard work and effort in the halls of FERC to get all of the commissioners to sign on to that action. I think the other remaining items are much more challenging to get the necessary votes.

But look, I think in some cases, whether it be on sort of maybe potentially the incentives NOPR or the RTO adder, certainly, I think time has been on our side and our benefit. I will tell you, we are not hearing anything that would suggest that particularly the ROE matters, the incentive NOPR is on FERC's priority list. What we have heard is that their next priority is on the transmission planning NOPR. And so certainly from our perspective, I think that's constructive that's positive we think that would be a great outcome.

With respect to the other issues on ROE, yes, I mean, certainly for ourselves, the transmission owners at MISO, I mean, we're keenly aware of some of the mark-to-markets. We have been somewhat waiting for FERC to take action on the MISO ROE docket, and I think because of the dynamics at FERC, we haven't seen that. We are -- I would say we're ready and prepared to take action and maybe perhaps it could be viewed as a little bit of a cat and mouse game to see who moves first, but we are keenly aware of the current market dynamics and certainly, we're sitting back, we're assessing and evaluating the broader landscape at FERC and all of the pending matters that sit before it. And therefore, I think that's why we're in sort of sit and wait mode. So unfortunately, I don't have anything specific that I know or that I could share, but I do think it is all tied up in the composition and the dynamics at FERC right now.

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

Okay. So I think in order for us to end somewhat on time, that will be the last of the questions. And I want to thank you all for attending in person and of course, those of you joining us online as well. So this will wrap it up. Thanks very much.
