## 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 U.S. Private Securities Litigation Reform Act of 1995, collectively referred to as "forward-looking information". Forward-looking information included in this presentation 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 include, without limitation: targeted average annual dividend growth through 2023; the Corporation's forecast capital expenditures for the period 2019 through 2023; the Corporation's forecast rate base for the period 2019 through 2023 and potential funding sources; the nature, timing, expected costs and benefits of certain capital projects including, without limitation, the Wataynikaneyap Transmission Power Project and Oso Grande Wind Project; expected expenditures and benefits related to FortisBC energy conservation and efficiency projects; renewable targets at Tucson Electric Power; and the expected timing of filing of regulatory applications and receipt and outcome of regulatory decisions.

Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally, including those identified from time to time in the forward-looking information. Such risk factors or assumptions include, without limitation: the implementation of the Corporation's five-year capital investment plan; no material capital project and financing cost overrun related to any of the Corporation's capital projects; sufficient human resources to deliver service and execute the capital program; the realization of additional opportunities; the impact of fluctuations in foreign exchange; the Board exercising its discretion to declare dividends, taking into account the business performance and financial condition of the Corporation; and no significant changes in laws and regulations that may materially negatively affect the Corporation and its subsidiaries. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking information. These factors should be considered carefully, and undue reliance should not be placed on the forward-looking information. For additional information with respect to certain of these risks or factors, reference should be made to the continuous disclosure materials filed from time to time by Fortis with Canadian securities regulatory authorities and the Securities and Exchange Commission. All forward-looking information in this presentation is given as of the date of this presentation and Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

**Unless otherwise specified, all financial information referenced is in Canadian dollars and references to rate base refer to mid-year rate base.**

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

FTS.TO - Fortis Inc at JPMorgan Energy Conference

EVENT DATE/TIME: JUNE 19, 2019 / 1:45PM GMT

## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Christopher James Turnure** *JP Morgan Chase & Co, Research Division - Analyst*

## PRESENTATION

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

All right. Good morning, everyone. My name is Chris Turnure. I cover utilities and power here at JP Morgan and the investment bank. Thank you all for coming. We'll kick off utilities today with Fortis, and I'm pleased to present the CEO, Barry Perry.

---

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

Thanks, Chris, and good morning, everyone. With me today, I have our VP of Investor Relations, Stephanie Amaimo. Why don't you stand up, Stephanie, so everyone knows who you are. Thank you, Chris, for inviting us again this year to the conference.

I'm just going to get into it. I'm the CEO of Fortis, Barry Perry. And today, I'm going to talk about some forward-looking information, so I want to express some caution around that. You can read this in your leisure, the statement.

So Fortis. We're a highly regulated energy delivery company, poles, wires, pipes, basically. We get paid to move energy through our lines and through our pipes focused on regulated electric utilities, regulated gas LDCs and FERC-regulated transmission. You see the locations that we are operating in across North America.

We do have 10 utility operations. We serve over 3.3 million customers currently. 99% of our assets are regulated. And after our recent push into the U.S. over the last 6 years or so, we now have 65% of our earnings coming from our American utilities. Our rate base, last year average, was about $26.1 billion. This year, we're around $28 billion, midyear rate base. We're adding about $1 billion of rate base every 6 months to the company right now.

Our strategy really is to leverage the footprint of our operating businesses to find growth opportunities, and we've been really successful at achieving that. Our dividend guidance is 6% through 2023. That's a very important metric for Fortis. We've always had a strong retail following in the stock and being able to increase your dividends continuously. Now we've done it for 45 consecutive years, which is a record in Canada. That's a pretty important metric for the company and one that we intend to keep.

The areas of focus for the business is execution of our capital plan. That's our most important focus. We are dealing with all the same issues that the sector is dealing with across North America, things like moving to cleaner energy, grid resiliency, cybersecurity. So we're focused on all those areas. Also, on our regulatory relationships, Fortis is known for having very strong relationships with our regulators across North America. And we're also focused on improving our balance sheet. As we've pushed into the U.S., we obviously bought 3 public companies. We paid full price for those businesses. We did buy them when the dollar -- Canadian dollar was stronger and premiums weren't as high as they are today. So we did get in probably quicker and better than most, but we still pay the full price. And we're taking a little time to improve the balance sheet post that acquisition period.

Sustainability. Always, a big issue for all public companies these days, and Fortis is a leader in this area. We're ranked top decile in Canada for our governance approach. Right now, 60% of our head office are women. 42% of our board are female. I hope that we'll get to parity there soon. 1/3 of the executive team is also female. We are ranked annually in Canada in terms of governance manners -- matters in the top decile of all companies in the country.

We are very focused on delivering cleaner energy. This is actually an issue in our -- more in our Arizona business where we have some generation, and we're moving away from coal in that utility and increasing our exposure to wind and solar energy. I'll remind you that 93% of our assets are T&D assets, poles, wires and gas pipes. And so that footprint is a good place to be. We're not really a big emitter of greenhouse gases in the company.

We do outperform the industry on safety and reliability statistics. And we operate in some of the worst weather conditions in North America. And Newfoundland, where I'm based, I think we do have the worst weather in Newfoundland -- in all of North America, frankly. And we've been running that utility there. Newfoundland Power, it performs better than the North American average despite having some of the worst weather conditions in all of North America. And we heavily invest in all of our communities that we operate in. We -- both through our employee volunteer hours and actual cash, we are investing in these communities, and I think any good utility has to do that to maintain great relationships with its stakeholders.

In terms of track record, we've been growing our EPS by about 8% annually for the last 5 years. That's a pretty strong growth as we have more than doubled the size of the company. We spent over $20 billion to buy U.S. utilities, and we've grown our EPS by 8% CAGR over that period of time. It's pretty strong growth.

Rate-based growth historically has been running around 6%, and now we've actually ticked up a little bit. We'll talk about that in a minute, so it's very strong picture in terms of looking back in terms of our performance.

TSR. Our shareholders have been richly rewarded. I've been with the company 20 years, so great choice to leave a newsprint company and join the utility industry. When I look at this track record here, 20 years we've delivered on average 13.5% return every year for those 20 years. What's interesting, though, as you take almost any period in that time, 10 years, 5 years, 1 year, we've done really, really well. And it gives you a sense of how we've been operating the company. We've gone in this period from a $0.5 billion of market cap to $22.5 billion of market cap. So clearly, if you bought stock 20 years ago and held it and reinvested your dividends, like most of the executives of our company, we've done damn well over that period of time.

Looking forward, though, which is what matters, this -- history is history. So what matters is what's coming, and we're investing about $17-plus billion in a 5-year capital plan right now at our regulated businesses, allowing our rate base to grow by 6% to 7%. And we have dividend guidance out there to 2023 of 6% annual increases in our dividend through that period.

These are the CapEx numbers by year. $3.7 billion this year. We're probably going a bit higher on that number. We've announced a new wind farm in Arizona, so that would be additive to that. These numbers support 3-year rate-base growth of 7.1% CAGR and 5-year rate-base growth at 6.3% CAGR. These are strong numbers, especially for wires -- primarily wires business. We don't have big coal fleets that we're transitioning from to renewables. We have basically run the grid, and that tends not to have as much risk but also maybe not as much growth as maybe vertically integrated utilities have these days.

These are some of the projects that we've recently talked about, the Oso Grande wind farm in Arizona. This is actually being built in New Mexico, and we'll bring energy into Tucson. It's a great project these wind farms are running at 50% utilization factor, pretty strong wind regime in New Mexico. Very cheap energy coming into Tucson. And frankly, the reduction in our exposure to our jointly owned coal plants, the savings we're making on our operating costs from getting out of those plants are enough to pay for these investments in renewable energy. So the impact on customers' rates are very, very minimal from this transition away from our coal-based assets.

In British Columbia, we have this large gas business. We serve over a million gas distribution customers in British Columbia. We have a very progressive regulator there that has allowed us to put our energy efficiency investments in rate base. We're going to be spending $370 million to reduce the consumption of natural gas and electricity, and we're obviously allowed to earn on that investment. And that doesn't happen in every jurisdiction. That regulator also supporting use of natural gas for transportation, renewable natural gas as well. And we're investing heavily in those areas. I think it's probably the most innovative natural gas distribution franchise in North America in that jurisdiction in British Columbia, and we're very excited about the growth prospects for that business.

And another project that we're really proud off is we have a partnership with 22 First Nation communities in Northern Ontario to build a 1,800-kilometer transmission line that will connect up 17 remote communities through the Ontario grid for the first time. These communities run on diesel generation currently, which is expensive and unreliable. Hooking them up to the grid will change the lives of the individuals living in those communities forever, and we're very proud to be involved. The federal government is supporting this project in the tune of $1.6 billion. We're putting in about $600 million. We own 40 -- 39% of the project. We are going to be responsible for building and operating the line. The First Nations own 51%, and Algonquin Power owns 10%. So it's an exciting project and one that we hope to do a good job. It will take about 4 years to build this project. It is regulated in Ontario about 40% equity, 9% ROEs is the compact there.

Folks, a little bit on Tucson. As I mentioned, this is where we have some coal-based generation. And we've had a goal to get to 30% renewables by 2030 in this jurisdiction. And we're getting there by moving away from our jointly owned coal plants. So the plants that we own just pieces of, basically, along with other utilities. These plants are shutting down over time, and we're actually investing in wind and solar through owning those assets and/or PPAs, it's a combination of both. And we're on a really strong track here with this recent announcement of the Oso Grande wind development. We're actually going to be close to 30% by 2021, so a full 9 years ahead of our goal. So we're focused on what do we set as our new goal for Arizona? Do we continue to focus on more renewables? Do we focus on reduction of greenhouse gases? We're working our way through that at this point, and we'll have more to say with that over the next few quarters. But very happy with the progress we're making in the jurisdiction. The company is doing well in Tucson. It's growing strongly at this point. And since we bought it in 2015, it's nearly doubled its earnings in about 4 years. So it's been a strong, strong investment for Fortis.

Right now, we're actually in the middle of a rate case filing in that jurisdiction. We're using 2018 as our test year. Arizona does have a historical test year. That's one thing I would like to change in the future, but I doubt that it will change its estate base, I think, it's actually part of their constitution. So your rates always tend to be behind you. The only way that works well if you have a really strong economy and your sales are really growing quickly, then it's probably good to have a historical test year. We're not quite there yet, but we're doing well in the jurisdiction, and we're working through the issues associated with the historical test year. I will point out that we're asking for slightly higher equity levels in this rate case. We have 50% currently. We're asking for 53%, and our ROE request is 10.35% up from 9.75% currently. Other utilities in the state have higher ROEs than this, so we feel that we're justified in asking the 53%. I think APS currently has about 56% equity, so I think it's a reasonable request. I will point out that we've been able to grow that business really well in the jurisdiction without having any significant impact on customer rates. Rate increases have been well below inflation for the last decade in that jurisdiction. I think we're running about 1% increase in rates per year over the last decade.

So Fortis, we're 10 utilities. So clearly, there's always regulatory activity in our business. That's the nature of the business. We embrace that. We're always -- we've never been a company that wants to do away with the regulators. We always acknowledge that regulation would be a big part of our business. And frankly, we like frequent interactions with our regulators. We don't like to be away from regulation in any jurisdiction for very long. So 2- or 3-year cycles on rate cases is what we like, and so we're not sort of pushing for 5-year rate freezes or stay-outs or anything like that. We do have a few regulatory processes that are material, underway right now. I just talked about Arizona. That's the middle one here. We do have a PBR reset that's going on in our BC business. That's probably routine at this point. The one that most people are following is the FERC proceedings with our purchase of ITC, which is FERC-regulated, our big transmission company, which is about 35%, 40% of Fortis at this point. I'll remind everyone that ITC owns 16,000 miles of transmission. It's irreplaceable assets at this point in time. As a Canadian, it's enough transmission to run from Newfoundland, where I'm based, the most easterly point in Canada to the most westerly point in Canada, Victoria, 5 times. That's how much that transmission is, so it's pretty amazing piece of infrastructure.

FERC is looking at the ROE situation. Last fall, it produced new guidance around how ROEs were going to be established. We've interpreted that it looks like ROEs are going to settle out to about where we are today, around 11%. And there's still some proceedings underway with that, and we hope that we will get a decision -- final decision before the end of this year. And so that will put that sort of issue behind us at that point in time.

FERC does have a mandate to incent the building of transmission. And historically, that's been interpreted that ROEs should be higher than state-level ROEs. So many utilities in U.S. states, obviously, are still receiving high 9s, 10% ROE. When you think FERC, say 11%, that doesn't seem to be a big distance from where the state-level ROEs are. So we're comfortable that we don't see any big material risk there, and we're hopeful that we're near the end of that process.

In terms of funding of the capital plan, well, last year, when we announced our new 5-year plan, we talked about how we're going to fund it. We did identify that a piece of the funding would have to come from asset sales, and we've now completed one of those. We sold a contracted hydroelectric facility in Canada that we had built and finished in 2015. It was a 335-megawatt hydro plant that had 2 PPAs: 1 with a government utility, the other with our own utility business in British Columbia. We sold it for 35x earnings. We made about a $450 million gain in about 3 years. We held the investment. Cost us $450 million to build it. We got $900 million for it. So we took all that money and paid down debt, and so that's helped out our balance sheet and helped the funding process for the capital plan. Most of the funding comes from cash from operations, from regulated debt at our utilities. The utilities, especially our large ones, are all public issuers of debt. They're all highly rated companies, and they do keep their capital structures aligned with what the regulators are telling them, and they're frequent participants in the debt capital markets. And we do have a dividend reinvestment plan that we currently are getting 35% to 40% of our dividends reinvested in our stock on a quarterly basis. And we do provide a 2% discount for that.

In terms of credit ratings, we are rated highly by S&P and DBRS, not so much by Moody's. Moody's is a work-in-progress for us, Baa3. I'm not happy with the rating. I will make improvement over time in this rating. I don't feel the company is a Baa3 company. So we do have to convince Moody's over time that we are improving, and we have to lift our FFO-to-debt numbers. We also have to improve our holding company debt to total debt to see if we can get a notch back from Moody's, and so we're working on that currently.

Dividend. As I mentioned, 45 years not too many companies had a track record this long. It's very important to us. And when we think about growth, it's always thought about in terms of can we continue to have a reasonable increase in our dividend on an annual basis. And we do have this 5-year guidance out there right now that we'll be updating this fall, so stay tuned for that. And we continue to execute well in this area.

So to summarize, with Fortis, you get a well-run business overall. We're virtually all regulated. We are the, I think, most diversified utility in North America at this point. We do have a very strong growth profile. It's actually getting better in my view and that supports our dividend guidance. And we continue to work on some bigger opportunities, which I haven't really talked about today. And that could be like related to LNG infrastructure in British Columbia as well as some contracted transmission opportunities that ITC continues to work on.

So with that, Chris, maybe we can take some questions.

## QUESTIONS AND ANSWERS

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

Great. Thanks, Barry. I'll kick it off here before we go to the audience. With a company as large as yours with so many different rate basis and jurisdictions, it's maybe tough to figure out where the opportunities are and what's really going to move the needle. So when we look at your major jurisdictions and where you're earning right now, where do you see kind of consistent earned ROEs? Where do you, on the other hand, see opportunities for lag catch-up, and let's exclude financing cost from this.

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

Yes. The big utility is ITC. And what's good about the FERC regulation, obviously, is we have formulaic rates at ITC. There's no big rate cases you true up your cost, your capital at the end of each period and you adjust your rates by formula in the following quarter or second quarter of the next year. So it's really an efficient way of doing it. And I once had a shareholder who was invested heavily in ITC. So Barry, never let anyone lose sight of what you guys own. In ITC, that FERC-regulated asset is very, very strong and lifts the overall quality of regulation in the company.

In terms of other areas, I would say the thing I'm focused on the most right now is trying to improve our situation in Canada. In Canada, we have equity thickness that is not even 40%. It's probably like 38%, 39% weighted across the country. So when I compare that to a typical state utility, state utilities are more in the 50% equity. So I have a 10-point spread in my equity thickness between my Canadian business and my U.S. business. That's equivalent to about $1 billion worth of equity. So if I capitalize Canada and my regulators allow me to do it like the U.S., I could put another $1 billion into that business. At 9% or 10% ROE, that's $100 million a year in earnings.

And there -- in my view, there is nothing we can point to that justifies why we have such thin equity in Canada. 10, 15 years ago, maybe we could say that U.S. regulation was inferior to Canada. We have 4 test years pass throughs on most cost, commodities, that kind of thing, those things are all present in U.S. utilities these days. And there's no border for capital, basically.

So we are trying to work with our Canadian regulators to convince them that it's time to start moving these equity levels up. It benefits customers in the long run to have strong utility businesses. We have to compete for capital worldwide these days, and we're hopeful that we can make progress on that point over the next 5, 10 years. It will take some time. These things don't happen overnight. But we do, at Fortis, have that opportunity, glass half full here. We have that opportunity that most of the U.S. utilities don't have at this point in time.

---

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

Great. Anything in the audience?

---

**Unidentified Analyst**

Just in that point, how would you anticipate funding the increase in the equity layer, either in Canada or even in Tucson?

---

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

I think if we were immensely successful and tomorrow got 50% equity in Canada, we issue some equity. I would just like -- I wouldn't have an issue with that. The growth capital, the normal growth capital aside from if our CapEx goes up from $17 billion to a higher number, we'll be looking at turning on our ATM program. We haven't at the market program $500 million. We could turn that on. We could clearly come back and look at some more asset sales as well.

We're very, I guess, very focused on making sure that we are looking at capital allocation the right way, that we've left no stone unturned in the business to raise capital rather than just going and issuing equity, for example. But ultimately, with good growth, maybe some equity will have to come through our DRIP program, through our ATM program, for example.

---

**Unidentified Analyst**

[Same thing in] Arizona?

---

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

Yes. So Arizona, that -- when I talk about Arizona, I talk about increase. That 3%, that's not a big number really. We'll just put the equity in and becomes part of the overall CapEx requirements and equity requirements at Fortis.

That 3% is -- if we go from 50% to 53%, it's -- I can't remember what the number is, but that's not a big number. It's probably less than $100 million or something like that.

Any other questions? There must be a couple more questions.

---

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

We can pick up there. Barry, I think you mentioned in a couple of different points in your presentation the quality of the FERC transmission rate base and I think, very importantly, the legislative mandate that, that is an important area for growth from the federal government that needs to be incentivized. Can you just walk us through the next couple of quarters for next steps on incentives and base ROE and how we can kind of think about the outcomes there?

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

Yes. So what's happening, clearly, FERC is going through a process of getting a little more input from stakeholders regarding the ROE process. You remember that there was 2 big proceedings: the MISO proceedings and the New England proceedings. And that's what developed this new policy from FERC late last year. So there would have been other parties in the U.S. that were not really part of those proceedings. So the record has been -- so our interpretation, the record's been left open to make sure that FERC has all the input that it needs from the entire universe, I call it. And then they'll make their final decisions.

Again, we're not seeing a lot of risks that there's new views on all of this stuff. It's -- was a very comprehensive 6-, 7-year process that FERC had gone through to arrive at where they got last year. So -- but ultimately, until FERC makes their decision, we will not know obviously. And -- but we feel fairly confident that we're in a good place. FERC has also opened up a proceeding around incentives, generally, and we're actually embracing that. We're saying, "Well, listen, the incentives haven't been looked at for a long time. Let's look at the incentives that we have today and whether they're continuing to work. And maybe there are new incentives that we need to bring in." We're not seeing it as FERC's tool to reduce ROEs or anything. It's all about having a look at what their policy has been and making sure that those incentives are working and that we consider the possibility of new areas that we could focus some attention to, to encourage investment. And so we are focused on working with the commission and making sure we're a strong participant in those proceedings.

**Unidentified Analyst**

Despite recent news, you say you have (inaudible) cyber security efforts and (inaudible)

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

Good question on cyber. When you look at acquisitions at times, we always focus on accretion and synergies and financial synergies and all that kind of stuff but don't spend as much time on the qualitative aspects of what's available and the companies that you're buying. And I can tell you when we bought ITC, the conversations that we were having with them around cyber and what they were doing and around physical protection of their assets and what they were doing versus what we were doing in some of our businesses, we learned so much.

And ITC, knock on wood, anyone can be humbled, I suppose, from time to time. But they're a leader in this area. And we just recently promoted their head CIO to be the Fortis CIO as well and because he's such a strong player in the industry, and his knowledge is top-notch, and we want to make sure that we push that across our organization. So it is top of mind for us. When you have the secretary of energy saying that's what essentially keeps him up at night is worrying about a cyber attack and a big storm that's approaching the East Coast with the pipeline disruption at the same time, that's what keeps him up.

The industry has to be focused in this area, and we are spending a fair amount of capital and resources to make sure we're doing our jobs. We've done a full assessment of our business, a maturity assessment of where we stand with regards to all these issues. And obviously, ITC ranks really highly, and some of our other utilities have some work to do. And we're focused on closing those gaps at this point in time.

Not every business will be at the same level. If you're in Turks and Caicos, obviously, you're not going to put the kind of investment into that business that you would put into an ITC. That being said, our Fortis model, frankly, helps us here. We have -- our utilities all operate separately from each other. We don't have any big shared system. There's really no interconnections up to the parent and no interconnections across. So that in itself gives Fortis a big advantage, I think, in -- from a risk perspective in this area.

**Christopher James Turnure** - *JP Morgan Chase & Co, Research Division - Analyst*

All right. We'll cut it off there. Thank you very much, Barry.

---

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

Thank you, Chris.

---