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EDITED TRANSCRIPT

FTS.TO - Fortis Inc Investor Day (New York)

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OCTOBER 18, 2017 / 1:30PM, FTS.TO - Fortis Inc Investor Day (New York)

QUESTIONS AND ANSWERS

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

Great. And we'll try to keep this on time this morning, about 30 minutes. So if you just want to raise your hand. I think we have a first question right here, midway.

Unidentified Participant

You did a good job talking about M&A, how you no longer want going to be serial acquirers, but you also sort of hedged that with talking about different ways that you might be interested in M&A. I guess how would you -- how would you bring it together and determine whether M&A would be attractive? I guess at the end you sort of made a comment off to the side that you're bullish on Fortis and Arizona. You obviously, with Arizona, you have strong regulatory relationships. Is that something that would sort of determine whether you wanted to take a step forward those strong regulatory relationships? I guess if you could flesh that out a little bit more, just to be clear.

Barry V. Perry - Fortis Inc. - CEO, President and Director

So the first question after 2 days of telling people that we're not focused on M&A is an M&A question. Man, what does it take? Listen, we were a small company and we had to tell everyone that we were focused on M&A, right? That was a key plank in our strategy. We didn't want to surprise our shareholders. So everyone knew what we were doing, and we were very successful at it. We don't have to do that anymore. We're just going to grow this business 5% to 6%, keep raising our dividend. And listen, if there's something that comes along, and it won't be where prices are today. I can guarantee you, that this is insanity where we are right now. Down the road -- like Arizona, that we got overlapping territory or something like that, down the road, yes, we would look at it. But right now in this organization, we are focused on delivering 5% to 6% organic growth and we'll see what the future brings.

Unidentified Participant

Okay. If we don't talk about M&A, it's a boring just growthy story that...

Barry V. Perry - Fortis Inc. - CEO, President and Director

Boring is damn good in this businesses, so...

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

Over here, please.



OCTOBER 18, 2017 / 1:30PM, FTS.TO - Fortis Inc Investor Day (New York)

Unidentified Participant

So you highlight that you're 97% regulated, and we're looking at your growth capital plans, and we see that's also regulated. So what would it take for Fortis to look at something that's in the nonregulated world? Do you really take advantage of that local knowledge, that advantage of cost of capital?

Barry V. Perry - Fortis Inc. - CEO, President and Director

I think you answered your question yourself in a way. We clearly are open to nonregulated long-term contracted energy infrastructure. We have some examples already that you can use. We own the Waneta expansion. We own 51% of that hydro plant in British Columbia. It's not regulated. It has two 40-year PPAs, one with their own utility, another with the government-owned BC Hydro. Erie Connector has to be a contracted facility, a -- virtually all of that line has to be contracted before we move forward with that project. So those are the kind of things we're looking for. It's not merchant. It's really putting a contractual arrangement in place that mimics the risk that you would have in a regulated business basically. And even in LNG, we're looking at long-term tolling arrangements. If we ever are able to develop our Tilbury plant, it will be entering into an arrangement with a utility, probably, in Asia, that will be a co-investor with us in the plant, that will enter into a long-term contract to take the supply of the plant and pay us a liquefaction fee. So these are the kind of things we're looking at. We're using that local knowledge, that local footprint to be front and center in those discussions. And I do believe that over time, we will find 1 or 2 of those as we go forward.

Unidentified Participant

So as we look into the outer years of your 5-year plan, should that be the sliver that we expect to grow more so than the others, or how are you thinking through that one?

Barry V. Perry - Fortis Inc. - CEO, President and Director

I think our goal is to grow the base plan even beyond where it is now, to get solidly in that 5% to 6% on a consistent basis with our regulated utility business. Clearly, we are hopeful we can add some of these bigger projects that will add to those levels. But they are lumpy, right? So you want to get that base company growing at 5-plus percent. And when you sort of match that up to this low-risk wires, gas LDC business, that's a pretty powerful combination, I think. It should attract a premium valuation in our sector as long as people believe we're not going to do more M&A so -- which they should. And so I think that's our focus. And we're going to land some of the big stuff and that's going to give us a little lift on top of that so...

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

Any further questions?

Unidentified Participant

So just in terms of -- again, looking at your capital plan, and when you go through that, is there any sort of filter you have to put on your capital allocation? Or is this just, if you can think of it, you're putting it in there. What are we seeing in terms of which projects make the cut and don't?

Barry V. Perry - Fortis Inc. - CEO, President and Director

Well, I think it's a lot more sophisticated than that, really. Each of our utility businesses are doing their jobs, working with the regulators on what they need to do and make sure the grids and networks are keeping up with everything that's happening, right? And clearly, we're encouraging our teams to really look across group of companies, look across the industry and say, what are -- what's happening in the industry and where are we deficient basically in terms of doing our jobs? And so we're identifying things like on cybersecurity that technology, new systems to help manage



OCTOBER 18, 2017 / 1:30PM, FTS.TO - Fortis Inc Investor Day (New York)

the grid and those kind of things. And we're learning from each other. So for me, I do believe we're at the beginning phase of a lot of that stuff. Jokingly, a couple of my people said in the company that they didn't think they were responsible for growth, some of the CEOs, because Fortis took care of that. Because we're off buying businesses and, obviously, I would -- that horrified me. But now they know that they are responsible for growth, and they -- what happens at the subsidiary determines our future right now as a company. And we're going to make -- I think we're going to continue to make headway there.

Jim Laurito - Fortis Inc. - EVP, Business Development

And a way, it was embedded in your question. We don't play the highest and best use of capital game based on who's ROE is higher. All of these guys operate on the basis if there's an infinite amount of capital available, whatever investments they need to make, that's what they put in their budgets and importantly, they build their own capital budgets. It all gets rolled up at the Fortis level, but we don't micromanage those budgets.

Barry V. Perry - Fortis Inc. - CEO, President and Director

I will make a comment on ROEs. I do believe, Canada, there is a -- I have a concern in terms of regulation in Canada. It's been good, and I still respect all the regulators we have across the country. But the push to thinner equity in the utility business in Canada is wrongheaded in my view. You have some jurisdictions getting below 40% equity thickness. Typical model is 40% equity in Canada, 9% return. In America, it's more like 9.75% on 50% equity. And in the past, we could say regulation in Canada was better because they had lots of deferral mechanisms and sort of risk mitigating sort of mechanisms. But frankly, a lot of the U.S. states have made a lot of headway in all of those as well. So I think we need to really -- I think the floor, my gut is the floor is in, in Canada, and we need to start coming back in terms of ROEs and equity thickness in Canada at this point.

Unidentified Participant

What would you say would be the impact of that pendulum going too far in Canada?

Barry V. Perry - Fortis Inc. - CEO, President and Director

Well, I don't think there's been any big impacts. You obviously had Canadian companies expanding into the U.S. I don't think that was the reason they did it. It's just that -- there is now -- there's always -- you always worry about how does it affect capital in terms of the utility's, the ability to raise capital at a good price, I'll call it. And I think increasingly, it -- where we are, it is affecting that, and we need to see some improvement there.

Unidentified Participant

Maybe just 1 last one. And this is for you, Karl. As you look at your credit spreads between, say, BBB and A, is the reduced costs of debt sufficient to offset the impact of the lower leverage of the overall cost of capital? And how do you think about that?

Karl W. Smith - Fortis Inc. - CFO and EVP

Yes. It's -- well, again, the regulatory overlay sort of helps that a lot. We're just a pass-through vehicle for whatever the cost of debt is. I mean, it is a valid debate and a valid thing to look at in terms of what the overall cost is. So that's balance, and there's been lots of empirical studies done about what the optimal credit ratings is and stuff like that. And I'm not going to weigh into that. But in this particular environment and the recent environment, the difference between BBB and A, low, or A has not been that great. So I don't think it's really had a meaningful impact on it. And we don't spent a lot of time trying to optimize to the nearest 1 basis points, what that would be. I think in this environment raising capital is relatively inexpensive. Regulators are supportive of that, customers are benefiting from that. So it's -- at this -- these levels, it's probably not something that really requires a lot of attention or time, to be honest with you.



OCTOBER 18, 2017 / 1:30PM, FTS.TO - Fortis Inc Investor Day (New York)

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

I think we had a question over here.

Unidentified Participant

Karl, thanks for quantifying a few risks heading into 2018 FX, lower ROEs, tax reform. Just wondering if those risks do materialize and at the same time the \$2.5 billion of potential projects get into the end zone, does that change your view on maybe needing some incremental equity in 2018?

Karl W. Smith - Fortis Inc. - CFO and EVP

We're in really good shape in terms of equity. If some of these projects were to come to fruition quickly, it would require some additional common equity, that's absolutely the case. As we get farther out into the plan and if they come to reality later on in the plan, it's less of an impact. Our dividend reinvestment plan, if it carries on the way it is, this really brings in a fair amount of capital for us. We think we can grow into that, to be honest with you. If we don't realize in any of these other opportunities, then we may have to start looking at ways to get capital back in the hands of shareholders, but I'm not anticipating that's going to be the case at all. So in the near-term, I think it's highly unlikely that we have to go out and raise any discrete capital. The more successful we get in realizing some of these projects, then we would have to, but again, not in a meaningful way. I mean, some -- there are some good vehicles to raise capital now especially here in the U.S., we're coming to learn through the at-the-market programs, for instance. We haven't pursued any of those yet, but we can raise capital on a very efficient basis that way, probably, more efficient than we have been able to do in the past. So I would suggest that it's not something that's going to change the dialogue or the storyline that much.

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

Any further questions today?

Barry V. Perry - Fortis Inc. - CEO, President and Director

Well, thank you. So Stephanie, what's the plan from here?

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

So this concludes our event this morning. We have lunch downstairs. And for those that are joining us for the afternoon, we will begin the session at 12:30.

Barry V. Perry - Fortis Inc. - CEO, President and Director

Thank you, everyone.

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

Thank you, everyone.



OCTOBER 18, 2017 / 1:30PM, FTS.TO - Fortis Inc Investor Day (New York)

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