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

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Lisa, and I will be your conference operator today. Welcome to the Fortis Q1 2020 Conference Call and Webcast. (Operator Instructions) At this time, I would like to turn the conference over to Stephanie Amaimo. Please go ahead, Ms. Amaimo.

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

Thanks, Lisa, and good morning, everyone. And welcome to Fortis' First Quarter 2020 Results Conference Call. I'm joined by Barry Perry, President and CEO; and Jocelyn Perry, Executive Vice President and CFO; other members of the senior management team; as well as CEOs from certain subsidiaries.

Before we begin today's call, I want to remind you that the discussion will include forward-looking information, which is subject to the cautionary statement contained in the supporting slide show. Actual results can differ materially from the forecast projections included in the forward-looking information presented today. All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our first quarter 2020 MD&A. Also, unless otherwise specified, all financial information references in Canadian dollars. With that, I will turn the call over to Barry.

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

Thank you, Stephanie, and good morning, everyone. To begin today's call, I want to take a moment to express our heartfelt thanks to our 9,000 employees, 3 million-plus customers and our local communities all of whom have been impacted by COVID-19. We are especially grateful for our local heroes on the front lines in our hospitals and our essential employees working to provide the energy that enables our economy. Also, we are thankful for our customers who depend on us to provide these services. Thank you.

Like many companies, we've responded to the call-to-act. Half of our total employees remain in the field and continue to operate and maintain our critical infrastructure. They have been doing an amazing job. The remainder of our essential employees have been working from home since mid-March. Across North America, our utilities have suspended disconnections and waived late fees to help alleviate the impacts of COVID-19 for our customers that need it most.

At the community level, our utilities have supported local charities by donating $4 million to food banks, mental health agencies and other community-based organizations in their local service territories.

Our businesses are performing well with essential employees, maintaining and operating our systems. With respect to our supply chain, our businesses have had access to the necessary supplies to operate effectively. We will continue to monitor our supply chain for the duration of the pandemic. And in some of our harder-hit regions, like Michigan and New York, we've sequestered control room operators to ensure we can continue to operate our networks well.

During this time, we've adhered to strict health and safety guidelines, including ensuring social distancing is in effect in the workplace. For example, our work crews have only 1 person per truck with other employees following to job sites in separate vehicles. Crews are also maintaining good hygiene practices to protect themselves and customers.

At the onset of the pandemic, we implemented our emergency response plans, hosting regular calls with the CEOs of our 10 utilities. Our leaders have tremendous operational experience and have risen to the occasion, sharing best practices on an array of topics, ranging from employee safety to customer solutions in real time. The fundamentals of our business haven't changed with the pandemic. Our decentralized model where local teams have the authority to manage their businesses, coupled with our irreplaceable energy delivery assets, positions us well to provide customers safe and reliable service. Plus our geographic and regulatory diversity is a major advantage at this time.

From a shareholder perspective, 82% of our annual revenues are protected by regulatory mechanisms or are from residential sales, which are expected to increase during the pandemic. This helps to shield the majority of our utilities from changes in sales associated with the economic slowdown, which has resulted in lower commercial and industrial sales.

Our conservative approach to running the business ensured we were in a strong liquidity position at the start of the pandemic. At the end of April, we had approximately $5 billion of liquidity, leaving Fortis position near the top of our sector. COVID-19 has caused the U.S. dollar to strengthen markedly and with approximately 65% of our earnings coming from the United States, this could provide a potential tailwind to Fortis.

Lastly, given the regulatory constructs in most of our utilities, we have limited pension expense exposure.

Now turning to Slide 7. This slide provides a breakdown of our annual revenues. Approximately 63% of our revenues are protected by regulatory mechanisms from changes in sales, which is very positive. The remaining 37% of total annual revenues are exposed to changes in sales. This primarily relates to UNS in Arizona and our other electric segments. When you break down the 37%, 19% relates to residential sales and 18% to commercial and industrial sales. In other words, 82% of our revenues are either protected by regulatory mechanisms or are from residential sales, which I mentioned, are generally seeing an increase.

While we don't know how long the pandemic will last, we've included a sensitivity table on the slide, which translates every 1% change in sales broken out by jurisdiction and revenue class into an annual EPS impact.

Moving to Slide 8. Here, we've included an overview of the local economic impacts the pandemic has had in our jurisdictions to date. Generally speaking, most regions are seeing an uptick in residential sales, as individuals spend more time in their homes and a decline in commercial and industrial sales, as businesses scale back or close. Some of our service territories have been struck harder than others.

In Southeast Michigan, for instance, where ITC's headquarters is located, the community has seen a high number of COVID-19 cases. This has resulted in a decline in peak load of up to about 25% at times, mainly driven by manufacturing and auto suppliers being closed during this time.

Since the FERC formula rate mechanism allows for a true-up of actual versus projected revenue requirements, ITC expects to recover these lost revenues associated with lower peak loads. However, to help mitigate the size of the true-up, ITC is working to reduce expenses to alleviate the net impact on customers.

In contrast, as noted on the previous slide, our utility in Arizona doesn't have a regulatory mechanism to protect it from changes in sales. Fortunately, the Tucson area has seen fewer COVID-19 cases compared to Michigan. In Arizona, the authorities establish a broader definition of essential services, which has somewhat muted the economic impact compared to other states.

UNS has seen an approximate 10% decline in commercial and industrial sales, partially offset by a 7% increase in residential sales, albeit primarily due to weather. Combined, this yields an approximate 4% decline. Overall, our utilities that are exposed to changes in sales have seen an approximately 3% decline 1 month into the pandemic, and that's for the period between mid-March and mid-April.

Moving on to Slide 9. Our 2020 capital plan is on track. Through the first quarter, we invested $1.2 billion in our energy systems or 28% of our annual plan. We are confident in our 2020 plan. However, if the pandemic evolves differently than what authorities expect, some of the capital may shift to subsequent years.

Turning to Slide 10. The 5-year capital plan of $18.8 billion remains intact through 2024. As you will recall, the capital plan is focused on our regulated businesses, and consists of a diverse mix of highly executable, low-risk projects needed to maintain and upgrade our existing infrastructure.

In 2019, midyear rate base was $28 billion, and is projected to grow to $34.5 billion by 2022 and $38.4 billion by 2024. This yields 3-year and 5-year compound annual growth rates of approximately 7%, which is consistent with our prior rate base growth guidance.

Moving forward, we continue to be focused on employee safety and customer reliability. With our long-term strategy intact, we are progressing our sustainability objectives, including clean energy initiatives. We also continue to focus on cybersecurity and innovation and are pursuing growth opportunities beyond the base plan.

Overall, our growth platform is resilient, and we are confident that our long-term strategy will create shareholder value. With that confidence in our long-term strategy, coupled with our long-standing track record of increasing dividends for 46 consecutive years, we remain committed to our 6% average annual dividend growth guidance through 2024. It's worth noting that about 1/3 of our shareholder base is comprised of retail investors who rely on our dividends as a source of income. Our goal is to maintain a stable dividend for these investors and other shareholders throughout this crisis.

Turning now to the first quarter highlights. Our safety and reliability performance was very strong as we invested $1.2 billion of capital expenditures in the quarter. This supported adjusted earnings per common share of $0.68 for the quarter. On the regulatory front, in late March, FERC issued a notice of proposed rule-making on transmission incentives, demonstrating their commitment to incentivizing the construction of transmission infrastructure. Jocelyn will speak to this in more detail shortly.

And recently, both S&P and DBRS Morningstar have affirmed our strong investment-grade credit ratings. We are pleased with these developments.

Now I'll turn the call over to Jocelyn for an update on the first quarter results as well as additional information on our COVID-19 financial impact outlook.

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

Thank you, Barry, and good morning, everyone. Reported net earnings for the quarter of 2020 were $312 million or $0.67 per common share compared to net earnings of $311 million or $0.72 per common share for the first quarter of 2019. On an adjusted basis, earnings per common share was $0.68 for the quarter or $0.06 lower compared to the previous year. Our regulated utilities performed well during the quarter with strong rate base growth. As expected, EPS was tempered by a higher weighted average share count related to the equity issuance completed in late 2019. And during the quarter, EPS decreased as a result of lower earnings at UNS Energy, and I'll get into the details of UNS on the next slide.

Slide 16 shows the details of the EPS drivers by each reporting segment. And as you can see, our regulated utilities contributed a $0.06 increase in EPS. For our Western Canadian utilities as well as Central Hudson, rate base growth was the main driver of the increase in EPS. The increase at ITC was driven by rate base growth as well as lower development -- business development expenses, and earnings at ITC were also tempered by a lower ROE associated with the FERC order issued in November 2019.

Our nonregulated energy infrastructure segment contributed a $0.01 EPS increase, driven by higher realized margins at the Aitken Creek natural gas storage facility. And at our Corporate and Other segment, the $0.01 negative EPS impact was mainly due to net unrealized losses on foreign exchange contracts, partially offset by lower finance charges and operating costs.

As noted on the previous slide, lower earnings at UNS decreased EPS by $0.06 for the quarter. Earnings at UNS reflect higher costs associated with rate base growth not yet included in rates due to the historical test year. TEP has requested rates that recognize approximately USD 700 million of additional rate base investments, and this rate case remains outstanding.

Earnings were also lower at UNS due to a reduction in the market value of certain assets that are held in the trust to support retirement benefits. This impact was about $0.03 and was a result of the financial market volatility experienced in March associated with COVID 19. The remaining decrease was due to lower retail sales in Q1 2020 driven by reduced heating mode compared to the first quarter of 2019.

And lastly, a higher number of shares contributed to a $0.06 EPS decrease for the quarter.

Now turning to updates on our regulatory proceedings. At ITC, we await rehearing regarding the MISO base ROE order issued in November 2019. And as you will recall, FERC issued an order in January, granting the rehearing for further consideration, effectively extending FERC's review, and there is no stipulated period for FERC to act on this.

With regard to the 2 notices of inquiry issued in March 2019, FERC issued a Notice of Proposed Rulemaking, or NOPR, in March 2020 on the transmission incentives inquiry. In the NOPR, the commission proposed cumulative ROE incentives of up to 250 basis points for transmission investments that meet certain criteria. It is proposed that these incentives would not be kept by the upper end of the base ROE zone of reasonableness.

Notably, the commission proposed a 100 basis point ROE incentive adder for participation in a regional transmission organization, or RTO, compared to the 50 basis point RTO adder that ITC has today. Partially tempering this was a proposal to eliminate the Transco ROE incentive adder in which ITC's MISO utilities currently earn 25 basis points. So this means if the proposals in the rulemaking are approved in a final rule, ITC's all-in eligible adders in MISO could move from 75 basis points to 100 basis points before considering other project-specific incentives.

Next steps include ITC and other stakeholders providing comments to FERC by the 1st of July. As I mentioned, in Arizona, the TEP rate case remains outstanding. Initially, TEP requested new rates become effective May 1. Unfortunately, due to COVID-19, the Arizona Corporation Commission has extended the procedural schedule, and a decision is now expected in late 2020.

As I mentioned, the current rates are not reflective of the investments made in Arizona. And as a result, this delay can be expected to temper earnings in 2020. Over the past few years, the impact of delayed rate has been reduced by higher sales associated with warmer-than-expected weather and a strong economy in Tucson.

As you can appreciate, it's difficult to predict the impact weather will have on earnings in 2020, but I will note it's pretty hot there today. I understand the temperatures are around 105 degrees Fahrenheit. So pretty warm there.

Beginning in today's ACC open meeting, the commission is expected to consider various issues related to COVID-19, including the financial impacts on customers and utilities and potential deferral and recovery of pandemic-related costs. We cannot predict the timing or outcome, but view this as a positive development.

And as discussed last quarter, FortisBC filed its 2020 to 2024 multiyear rate plan last March as the prior term expired at the end of 2019. Currently, we have interim rates and expect final rates via a written order by mid-2020. During the quarter, FortisBC filed an initial project description with regulators to begin a federal impact assessment and an environmental assessment to further expand the Tilbury site. This expansion, which is not included in our current capital plan, considers the potential increase in storage capacity to improve resiliency of the gas system and additional liquefaction for export opportunities.

FortisAlberta awaits a decision by the Alberta Utilities Commission, or AUC, in the review and variance and stay on implementation of the September 2019 order, which significantly changed the Alberta Electric System Operator's transmission customer contribution policy. We received notice in December that the AUC's decision would be delayed into 2020 to allow the regulator to gather additional information. This information was provided in January. But given the current circumstances, we think there may be further delays before this matter gets resolved.

And lastly, expert evidence was filed in AUC's ongoing generic cost of capital proceeding in January. This proceeding was supposed to establish the allowed ROEs and capital structures for 2021 and 2022, but was suspended in March as a result of the pandemic. The AUC will reassess the suspension every 30 to 60 days going forward.

On April 23, the commission asked participants to file comments on whether the proceeding could be resumed, and if so, when and on what terms.

As you may recall, we strengthened our liquidity in 2019 using proceeds from the equity issuance and sale of the Waneta Expansion to repay fixed-term debt and credit facility borrowings. We have approximately $5 billion in total liquidity, which strongly positions Fortis as we continue to work through the COVID-19 pandemic and execute on our capital plan. This includes a $1.3 billion unutilized corporate credit facility and an additional $500 million 1-year revolving term corporate facility secured in April.

Most of our credit facilities are unsecured committed facilities with maturities ranging from 2022 to 2025. And as you can see on Slide 19, our utilities remain active in the debt capital markets. ITC issued USD 275 million term loans in the first quarter. Additionally, TEP and Newfoundland Power successfully issued 30- and 40-year debt in April 2020. Despite broader market volatility, the debt capital markets remain attractive for strong credit quality issuers like Fortis.

Our financial flexibility is further supported by manageable fixed-term debt maturities with approximately $1.1 billion due on average annually over the next 5 years, with approximately $500 million maturing in 2020. In 2019, we met all credit rating agency thresholds and significantly improved our cash flow to debt and holding company debt metrics. This improvement was reflective of our funding plan, again, including the sale of the Waneta Expansion and the equity issuance. And you will also recall, we terminated both our ATM program and the 2% discount previously offered under our dividend reinvestment plan concurrently with the equity issuance.

In late March, S&P affirmed our A- issuer rating and our BBB+ unsecured debt rating. S&P recognized the execution of our funding plan in 2019 while maintaining the negative outlook due to concerns around COVID-19. The negative outlook is consistent with our peers as S&P revised its outlook for the entire North American regulated utility industry to negative from stable in early April due to COVID-19.

And on May 4, DBRS Morningstar affirmed our BBB (high) issuer rating and senior unsecured debt rating with a positive trend, up from stable. Fortis' low business risk profile, improved credit metrics and ample liquidity support our investment-grade credit ratings.

Before I wrap up my remarks, I wanted to discuss some of the potential financial implications of COVID-19. Despite capital market volatility associated with the pandemic, Fortis benefits from limited pension exposure. At the end of last year, our defined benefit pension plans were almost 90% funded, with just under half of the planned assets invested in fixed income. Our pension expense is further mitigated by regulatory mechanisms covering approximately 80% of our planned assets. The remaining 20% relates primarily to UNS, where the exposure is largely attributable to the historical test year. As a reminder, the impact of asset valuations on pension expense and funding requirements is dependent on December 31 asset valuations. So consequently, any valuation impact will not be reflected in our financial results until 2021.

And with regard to other retirement benefits, our U.S. utilities fund certain benefits through trust and are subject to market changes each quarter. Outside of UNS, most assets are heavily weighted towards fixed income investments and thus have minimal volatility. In total, UNS has approximately USD 30 million in trust assets.

Turning now to the implications of the recent strengthening of the U.S. dollar. Approximately 2/3 of our earnings come from the U.S. and a similar amount for our 5-year capital plan is expected to be invested in the U.S. A stronger U.S. dollar could be a tailwind for Fortis in 2020. Every $0.05 change in the U.S. dollar to Canadian dollar exchange rate impacts annual EPS by approximately $0.06 on average and would result in an approximately $400 million change in our 5-year capital plan. And as a reminder, our capital plan is based on a foreign exchange rate of $1.32.

Lastly, we remain committed to working with our customers to alleviate some of the financial impacts associated with COVID-19. Although it is too early to quantify the impact, we continue to evaluate potential credit losses. And depending on the amount, some of our utilities may seek future rate recovery of credit losses associated with this pandemic. Additionally, some of our utilities are somewhat insulated from credit losses. For instance, ITC and FortisAlberta do not interface with end-use customers for billing purposes. Instead, ITC is primarily paid by MISO, which collects revenue from the local distribution utilities, and FortisAlberta is mainly paid by the retail energy provider EPCOR. Combined, ITC and FortisAlberta represent approximately 30% of our annual revenues.

So to summarize, we are effectively managing the financial impacts of COVID-19 on our operations. Our diverse business, coupled with positive regulatory mechanisms and constructive regulatory relationships, place us in a good position today. This concludes my remarks, and I will now turn the call back to Barry.

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

Thank you, Jocelyn. To wrap up, I want to reiterate our heartfelt thanks to frontline workers, especially those in health care and our own essential personnel. As for Fortis, our fundamentals haven't changed. We are strong and stand united with our 10 utilities across North America to deliver the essential service that our customers count on by keeping the lights on and the natural gas flowing.

We are optimistic that we can navigate back to a sense of normalcy, keeping the health and safety of our employees and customers top of mind. I'll now turn the call back over to Stephanie.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today comes from the line of Robert Kwan from RBC Capital Markets.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

If I can just start with the COVID-19 impact, and you've got the sensitivity, if the 3% reduction holds on an annual basis. So that's tracking to $0.02 or $0.03 a share back. You also noted the FX impact. And if that holds as well, are you looking at kind of everything in its entirety being in -- that's kind of that commentary about it potentially be just a net positive?

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

Robert, certainly -- this is Jocelyn. Yes. I mean, right now, we're seeing an overall 3% decrease and so it's about $0.03. So one could potentially argue that the tailwind with FX could certainly mute the impact of any variance that we see as a result of lower sales in those jurisdictions, yes, you're correct.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Okay. Just to be clear though, you focused on the sales reduction and that any of the other COVID-19 responses that you outlined, including the return of the DSM in Arizona, the rate deferral in Turks and any of the bill deferrals, is that just, in your expectation, cash timing and everything from an earnings perspective will be swept up under rate-regulated accounting?

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

I think, Robert, those are fairly minor overall. I don't think they're large enough to show up. The one in Arizona, I don't think, has an impact. Turks, obviously delaying the rate implementation does have some impact on the bottom line, but they're not significant in any way.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Got it. Okay. And if I can just finish with funding. Removing the DRIP discount, looks like it's had a pretty big impact on participation. So if that continues to hold, can you just talk about your approach to funding, given I think the DRIP being on and participation higher than where you are was part of the plan going forward?

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

So Robert, I'm going to jump in because, obviously, based on our actions last year to exit the Waneta plant for $1 billion and then $1.2 billion of equity done in December, it's almost like we predicted the pandemic was coming. We really got out ahead of this thing and created a strong position. But if you think back to when we did the equity, we talked about prefunding our capital plan. So yes, we got lower participation in the DRIP, which we expected. But we have really no need to go to equity for some time here. And we created a lot of room for the company. If we get some more growth, which is very possible as we look at some of the initiatives we have on the go in the company, then yes, we'll probably be looking at some more equity. But where we are now, it's nothing that I'd be worried about anytime soon.

Robert Michael Kwan - *RBC Capital Markets, Research Division - MD & Energy Infrastructure Analyst*

Okay. But just to be clear, absent of new growth, this lower participation rate was -- what has already been factored into the existing capital plan that doesn't require material new equity going forward?

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

Yes. We've -- we did assume lower DRIP participation. It is a little lower than what we've anticipated, but it's just in 1 quarter, right? So I think we need to go to 2 or 3 quarters, Robert, to really see what the actual DRIP participation is what we're leveling off at. What we're finding is the banks are doing synthetic DRIPs. There is a lot of shareholders who are actually participating in DRIPS, just not the Fortis DRIP, right? So the banks are doing their own back office DRIPs and buying shares in the open market which I think a lot of us weren't really aware of. So once the discount went away, this is what's occurring. So we're looking at that and seeing if there's anything we can do about that.

Operator

And our next question comes from the line of Ben Pham from BMO.

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

Thanks for detail on COVID-19. I was wondering, as you've gone through this work-from-home and remote and whatnot, is there any sort of potential permanent cost savings coming out of this that has popped up, travel and you have a dozen different Board meetings and companies you're looking at. Is there anything there that you think could be sustainable? And I know you mentioned cost reductions at ITC. I wasn't sure that those are referenced to that?

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

Yes. Ben, listen, great question. And I would say, first of all, at the top, the transition to work from home has gone remarkably well. If you'd asked me 3 months ago, could we put 5,000 people at home working and have a very effective system and communication system and all that stuff, I would have said, "Geez, that's going to be a big challenge." But our IT team especially stepped up and it's working so well. And we actually are communicating. We're communicating better, I think, at this point in terms of the senior team, especially and how we're monitoring each other's businesses and really learning from each other. So that's all going well. I would say it's a little early to say what the savings are associated with this. And whether some of it becomes permanent. We're learning -- we're just -- I would think, in the last couple of weeks here, we're sort of starting to feel a little more comfortable about how the current system is working. But definitely, we'll be looking at opportunities to really see if there's stuff here that we can keep once we get through the crisis. And clearly, travel is down, all that kind of stuff. That's evident at this point in time. But maybe there are bigger things around, some proportion of our workforce may be able to stay working from home, and that could lessen the need for office space, that kind of thing. So we're going to be looking at that. But at this point, a little early to say how much it is and what the real benefit could be.

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

All right, great. And maybe on the UNS, the hearing scheduled in the summer. Do you know it's comfortable for virtual hearing and submissions? Or is this a situation where this could keep -- can get punted down into the future?

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

David Hutchens, did you get that question?

David Gerard Hutchens - *Fortis Inc. - COO*

Yes. I got that question. Thanks, Ben. Yes, they have got extremely comfortable with virtual open meetings. And I'm sure we'll be able to do a virtual hearing for this particular circumstance. It's not a very complicated one. It's a single issue. There's not a whole bunch of interveners for this particular issue. So I think this will easily be done in the June time frame virtually.

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

Okay. Great. And maybe one last question on Belize. You had mentioned Belize in your commentary. It looks probably a couple of pennies hit last year. Is that because conditions have improved? Or is it because year-over-year, it's still challenging?

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

The water situation in Belize is definitely still challenging. We've been actually holding back a little bit of water as we go into the dry season to make sure we have some amount of water to provide energy to the country. And so we're actually above the rule curve right now, but we're holding back on generation at the request of the utility there.

So I think I'm -- Ben, really -- we got to wait now until August, September or October for the rainy season to start again. And I remind everyone, it only takes 1 big tropical storm to fill that reservoir in Belize. So we're all dancing for rain at this point. But right now, we are still struggling through a very severe drought there. We did pick up a little bit of earnings from our interest in Belize Electricity. A lot of folks maybe have forgotten this, but we do earn -- own 1/3 of the utility there. And we did pick up, I think, a little bit from that in the quarter.

Operator

And our next question comes from the line of Rob Hope from Scotiabank.

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

Yes. 2 questions. First one is just can you add a little bit more color on the $0.03 hit at UNS, what type of assets are included in that trust, just given that the $0.03 looks relatively large versus, I believe, Jocelyn said that the trust had $30 million of assets there? And I guess, subsequently, could we see a reverse of the -- or partial reverse of the charge into Q2?

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

Yes, Rob. Yes, they do have about $30 million. It's invested 60:40, I'm going to say through an equity and fixed income. It did take a bit of a hit this quarter. But we also had a slight gain in the first quarter of the previous year. So $0.02 actually, I guess, happened in this quarter, but it was coupled with the positive gain in the first quarter of last year. We don't typically see big movements that never ever reaches $0.01 for Fortis. But where the market took a bit of a drop at the end of March there, clearly, it added up to the $0.03 for Fortis.

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

Yes. This market volatility, Rob, was -- it's interesting. You think about what happened in the last couple of weeks of the quarter on the stock markets and on foreign exchange for Canada, like we were -- even on foreign exchange, we were like averaging for the quarter like $1.34, but the dollar ended up at the end of the quarter at like $1.40 or something like that. So we had to mark-to-market our contracts at the end of the quarter, but only earned during the quarter at $1.34, so it's a mismatch. So that's sort of acute movement in the market near the end of the quarter, introduced a little bit of volatility for us. The markets have bounced back.

So I know David's team that recovered a bit of that sort of trust account already. And if markets continue to improve, that we'll get that back. So it's really, I'd say, not sort of like part of the normal business. It's definitely something we have to do to fund retirement benefits, but this market -- acute market volatility has caused us some issues with those accounts.

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

All right. That's helpful. And then just a longer-term question. Just how are you thinking about the Eagle pipeline in BC? And what are your conversations with the developer there? It looks like you pushed it off to 2024 from late 2023?

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

Rob, I would say that we're still including that project in our 5-year plan. We're still spending money on behalf of that developer, their funding work that we're doing. So as long as we continue to see that progress from the customer, ultimately, that is building the plant, we feel we have to include it. I am very excited about the prospects in BC generally. Our natural gas system there is a very large system. We're looking at some exciting opportunities to expand our Tilbury site. Jocelyn mentioned that in her upfront comments, to add more tank storage for resiliency, maybe some more liquefaction for bunkering and export opportunities. We really don't have those things in our 5-year plan yet, but they're starting to advance. And I'm getting more and more optimistic. I know Roger is on the call and doing a really great work for us in British Columbia. So when you think about governments and looking towards shovel-ready projects coming out of this crisis, we're hopeful that some of the work we're doing at BC will be on that list, and we'll be able to grow the business even faster in British Columbia.

Operator

And our next question comes from the line of Michael

Sullivan from Wolfe Research.

Michael Sullivan

I just had a question. I wanted to dive a little deeper on the Arizona sales growth trends. Do you happen to have any of those data points on a weather-normal basis, just given -- I think that was -- had a pretty big impact in Q1 and in April as well?

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

I'm going to -- David Hutchens is on the line, I'm going to throw it over to David. I will say this period that we have in that slide, Michael, is the period mid-March to mid-April is the shoulder period for that -- for the business in Arizona. So it's the toughest period to predict trends. But David, you have all the details on that, obviously.

David Gerard Hutchens - *Fortis Inc. - COO*

Yes. I'd just add, Barry, that on a weather-normalized basis, residential is flat to slightly up. And remember also that weather normalization is quite a bit more of a -- of an art than science. And there's a lot of things moving around, particularly as we see commercial businesses change how they're taking energy as well as the residential load shape, et cetera. So our models aren't really as great as we'd like them because we've never seen a load shape really quite like this.

But given that, if you take out the weather normalization on an overall perspective, I would say it probably takes out 1% or maybe 2% at most on that 4% that we're looking at a net down for that last 30-day outlook or to look back. So the other thing to keep in mind, too, though, is that these are shoulder months, and we don't see a ton of weather typically in the March, April time period. As we get into the summer, we'll see a lot more sensitivity to weather, particularly with that many more people working from home. So whether -- the weather on a going-forward basis will be something to watch for sure.

Michael Sullivan

Great. And then also just sticking with Arizona. The impact of the delayed rate case, I think, showed up in the quarter as $0.02. Just any sense of how big that impact should be over the course of the year, given it's looking like rate is not going to be in effect until late 2020?

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

Michael, I'll try to stay simple on this stuff. We got $700 million rate base that we're trying to get into rates, no real issues with that, a lot of the Gila River Unit, the reciprocating engines. It's sort of like good stuff. You apply 50% equity to that, maybe just use some estimate of ROE that you feel comfortable with and for the remaining time period for the year, do the math, it's pretty simple. And that's sort of what we're seeing for the rest of the year at this point. It's unfortunate that it's been that long since we set rates. We've done a great job investing in Arizona. We're looking forward to getting our new rates there and continuing to do our jobs. But there will be a lingering impact on the earnings in Arizona until we get those rates secured at the end of the year.

Michael Sullivan

Okay, great. And then just last one for me. I know you said a little early to talk about credit losses, but just any historical perspective of what those have looked like in past economic downturns and how much bad you've ultimately had to wear versus covered by writers?

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

I would say, first of all, from a Canadian perspective, like if you look back to '08, '09, we really didn't have the U.S. businesses back then. It gives you a sense how much we've grown. The Canadian customers pay their bills, frankly. And we've not seen historically large bad debts even in crisis. I know that the U.S. utilities, maybe there's a little more of that. But the work we've done, Jocelyn, and we haven't -- like this has not been a material issue historically, right?

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

Certainly not material. And I do know, in New York, during the last financial crisis that they actually did apply for a regulatory deferral and they did get it. But again, nothing material to Fortis in terms of the dollar amount we're talking about. But -- and I suspect, in this case, depending on the amount of credit losses that we -- that the utilities may see, they very well may file for the regulator for deferrals of these amounts as well. But nothing material that we expect.

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

But Michael, we're on alert for it. We are monitoring it, but it's a little early also to say that there's any trend or anything at this point.

Operator

Your next question comes from Julien Dumoulin-Smith from Bank of America.

Ryan Greenwald - *BofA Merrill Lynch, Research Division - Associate*

This is actually Ryan Greenwald on for Julien. I appreciate all the new disclosures and sensitivity. So I was hoping you guys could kind of give us some color. I know the data that you guys provided there, as you alluded to as the shoulder months, but can you kind of talk about your internal assumptions for load on a weather-normalized basis into the summer, specifically in Arizona?

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

Ryan, it's pretty tough. I know the industry, I think what we're hearing is about a 4% net load between commercial being down, say, 10% and residential being up 6%, 7%, that kind of thing. We're seeing about the same stuff at Fortis. But the business in Arizona is such a wildcard with temperatures at the levels we're seeing today, like 105 degrees, you can quickly overcome any decline in sales on the commercial side by an uptick on the residential side. So on a day like today, we're -- our sales are probably up in Arizona, even factoring in the crisis. So that's the nuance for Fortis is trying to predict where the weather is going to be in Arizona. So in the last 2 or 3 years, last year, maybe it was a little more normal, but the prior 2 years, we had warm weather, and that overcame all the regulatory lag that we were experiencing or most of it in the jurisdiction, right?

Ryan Greenwald - *BofA Merrill Lynch, Research Division - Associate*

Yes. Fair enough. And then in terms of kind of -- so you have some mechanisms in place, but you have this rate lag in Arizona

(technical difficulty)

levers that you can pull across your jurisdictions just in terms of mitigating any load impact?

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

Sorry, Ryan, can you -- we lost the first part of your question? Can you restate it?

Ryan Greenwald - *BofA Merrill Lynch, Research Division - Associate*

Yes. So you have some mechanisms in certain jurisdictions, but then you have the rate lag in Arizona. But just broadly, can you kind of talk about the levers that you can pull in terms of cost cuts in order to kind of mitigate any load impact?

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

I don't think there's a lot we can do, Ryan, really. We are doing some -- obviously, ITC where load is down probably more than some of our other jurisdictions, largely related to the auto plants. I know Linda and her team are really focused on cost reductions to really mitigate the impact on customers there. But it's not a bottom line issue. It's more about making sure we do the right thing. So in the other businesses, we -- our focus really is mainly around making sure the grids are operational, that are very reliable, that the service we're providing is there for our customers. We've always done a great job of monitoring our operating costs as we come in for frequent rate cases, especially in our Canadian jurisdictions. So I don't think there's a lot of opportunity to cut costs in the business to sort of create more earnings and one part of the business offset an impact in another part of the business. That's sort of not the way we operate the business overall. Some other companies might do that way. But for us, our businesses are independent businesses that are implementing their business plans, executing on their capital and currently doing a really good job. We haven't really seen any -- because I think some of the early practices around how we approach the work and safety of our employees, we really haven't seen much at all in terms of decline in our -- in the work we're doing in the field.

Operator

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

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

Maybe just following up on that question, where you said you couldn't necessarily do a lot on OpEx. What about, given there's a slight push out in the TEP rate case about managing CapEx just as the regulatory lag here gets extended a bit?

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

I don't think we're going to do that. The CapEx we're putting in the ground in TEP is required. The fact is, we have an historical test year there. The crisis happened. It's not unusual that the commission would have delayed in this circumstance, the process that's -- we're seeing that happen across many jurisdictions. So we knew coming in that it was an historical test year. Look, I would hope, listen, I'd hope over time, and I'm always encouraging, David and the team will try to find ways to improve. I suppose, the regulatory compact in Arizona, recently, with this case, our equity -- looks like our equity is going to move up from 50% to 53%. So that's a positive development. But I don't see ourselves really cutting CapEx or anything like that. There may be some way of moving capital around a few months here or there that helps a little bit. And we'll take advantage of that. But from an overall direction, how we look at Arizona is that it's a really fast-growing jurisdiction. It's -- typically leads the nation, in the top 1, 2 or 3 states in terms of economic growth. Over the long haul, we have tremendous investment opportunities there. And over time, we're going to see that earnings growth. It's just that we'll have these periods of flatness between rate cases. And fortunately, there's about 20-plus percent of Fortis overall, we can absorb that. But we're not looking at severe changes in terms of how we run the business. That's for sure.

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

Okay. And then just turning to BC. Can you just clarify whether or not there actually is decoupling in place in the interim rates? Or that comes in how can you get through this rate case? And then given that you're kind of saying there's a revenue protection there, what is that from the electric utilities? Is that just a higher fixed charge component?

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

So was the question about BC, British Columbia?

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

Yes, that's correct.

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

Yes. We have -- Roger, maybe you can describe the mechanism, but I think it's a pretty strong mechanism that protects volume, right?

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

Yes. So there's 2 metrics. We've had decoupling for decades on our residential and commercial that protects usage. And then under the PVR that ended in -- at the end of 2019, we had a revenue flow-through that captured all other revenue variances. We've applied in the MRP that we're waiting for on the decision. We've applied for a continuation of that revenue flow-through. So currently, we're using the revenue flow-through, and we expect it to be approved when we get to rate order. But absent that, we've always had the decoupling going back years that covers our residential and commercial customer classes.

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

Okay. And then I know it's a small segment of earnings, but the Caribbean, given the drop in tourism. Maybe just speak to what can be done to sort of mitigate some of the drop in the load there? And how severe could the earnings impact be?

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

I don't see a material earnings impact coming out of the Caribbean. And in fact, in Grand Cayman right now, we're not seeing a lot of sales-related changes. It's not as -- Grand Cayman is not a subject of the tourism trade as Turks and Caicos is. Turks and Caicos is a little down. We made a -- I suppose, we really made headway in Turks and Caicos just before the crisis by getting rates settled for the recovery of hurricane costs. And unfortunately, when the crisis happened, we did have the delayed implementation of that rate increase. So overall -- reminding everyone, the Caribbean in total is 3% of the company. So really, it's not significant and maybe $0.01 or something like that overall for Fortis, but not significant.

Operator

(Operator Instructions)

Our next question comes from the line of Linda Ezergailis from TD Securities.

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

I'm wondering if you put any thought to maybe reassessing your rate -- or your revenue allocation across customer classes to the extent that potentially industrial load doesn't recover in certain jurisdictions very quickly and maybe even some impact remains for commercial customers.

What -- how quickly could that be done in various jurisdictions? And do you think the regulator would be open to that and/or potentially increasing your fixed charges as well?

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

Good question, Linda. Hope you're well. I think, first of all, on industrial class, we don't get a lot of margin from industrial customers. They're usually that large volume customer that got the lowest power rates, and we don't get a lot of volume. So a lot of margin, I should say. But if you extend your question from commercial customers, there's obviously more margin there. I think we'd have to see this sort of pandemic last a little longer here to start thinking about rate design and customer allocation -- or customer class, revenue requirement allocation, I guess, between customer classes, I think we'll probably learn something from this. But I think it's a bit early to say we're going to be filing new applications to try to allocate our cost to different classes based on what we're seeing now on the pandemic. So -- but interesting thought for sure.

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

Okay. And I know it's early days, and you're focused on the safe operations for your customers and your employees. But you did mention this possibility that if growth were added, your equity needs might change. So I'm just wondering if you can comment on at what point the organization would be open to looking at maybe opportunistically acquisitions, and what factors would need to be in place that would make you more interested in capitalizing on those opportunities.

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

Yes. We have this sort of situation that we're fortunate we have a strong organic growth story. Great bunch of businesses now that have this rate base growth of around 7%. And that's using exchange rate $1.32. If we believe the Canadian dollar is going to be at $1.39, that rate base number of growth, I think the next 3 years we're 8-plus percent rate base growth. So we had a big tailwind there. So Linda, no one's buying anything in the middle of this crisis. Unless a company is really in trouble in our sector, I don't think any transaction happens in this crisis. So really coming out of it into next year, you might see some companies trade. I'm not anxious to get back at that, I really am. I think we've got a great company, great portfolio of businesses that are growing well at this point in time. Acquisitions are risky. I won't rule it out because we always got to look at the opportunities to create shareholder value. We've got a great business model at Fortis, and that's showing up here in this crisis, in terms of our local management teams. Can't imagine centrally managing a crisis like this across multiple jurisdictions in Canada and the U.S. Like the fact we have this business model that we have is working out so well for Fortis. So I do know that we can add another company to that in the future. It's just not something we're focused on right now.

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

Okay. And I realize your DRIP participation rate has gone down with elimination of the discount. But I'm just wondering what options you might have to turn it off and what factors would have to evolve or change for you to consider turning that off entirely?

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

I think that some shareholders like the fact that there's the DRIP. So I'm not thinking we'll turn it off. I mentioned earlier on the call that the participation rate did decline a little more than what we were expecting. And what we're learning is the fact that a lot of the banks are doing their own DRIPs. Now that there's no discount on ours, they don't -- I guess, they can figure out how to do that without creating too much risk for themselves and offer these reinvestment programs. So we don't get to issue shares in treasury. They're just bought in the market by the bank. So we're not seeing that sort of cash flow coming in. We're looking at that and see if there's a way that we can change that.

And maybe the possibility is we even go back to adding a little discount on the DRIP again to sort of normalize the participation. So that's one possibility. So I guess what I'm saying is I do value the DRIP, I do value what it brings to retail shareholders. And I was a little surprised that the mechanics behind this in the Canadian market that allow DRIPs to continue without the company's involvement basically.

Operator

(Operator Instructions)

Our next question comes from the line of Patrick Kenny from National Bank Financial.

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

Just on the rehearing for the base ROE at ITC, any thoughts on how this recent volatility, both the capital markets and the overall economy might help support your case in convincing the FERC to maintain a methodology that supports a higher base ROE. If I recall, '08, '09 had somewhat of a positive impact on base ROEs after the dust settled. So I'm just wondering if you're expecting a similar outcome this time around with the FERC at ITC, and maybe perhaps across some of your other utilities as well?

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

Patrick, that's a great question. I'd have to say if we'll use all the tools available to us, and I know Linda is on the call and she can wade in here. But the messaging is consistency at FERC and the ROE needs to be enough to incent to building a transmission. And that ROE means it's got to be higher than state level ROEs. And so I believe FERC understands that. We just got to figure out how to get to the other end of all these processes that we have in place at this point in time. We are, I think, seeing some positive commentary coming out of the commission chair, and I'm hopeful that over the next maybe 12, 18 months here, we'll get some of these matters resolved and get back to that knowing what the ROEs are going to be so that we can make the decisions necessary to build out the transmission system in the U.S. It's such a marvelous asset, and it's facilitated such improvement in renewable energy and all those things. So I think FERC understands the importance of it all, and we're hopeful that we'll come out at the right end of it. Linda, anything you can offer as well on the current volatility and how it sort of plays into everything?

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

Well, Barry, I think you stated it very, very well. And just to kind of repeat what Barry said. Look, I mean, I think FERC has been, I think, keeping a close eye on sort of what is happening in the market. I think they understand very well the impact of the economic downturn and COVID and sort of just how important to have a sustainable healthy ROE is to continue to attract transmission investments. So while we don't have any specifics in terms of what actions they might take or when, I think we continue to view this as just, I think, a reminder to FERC about how important stable, sustainable ROEs are. And so I think we remain hopeful that we will see some action, some decision before the end of the year on the ROE case. But certainly, I mean we don't really have any particular insight on timing, but we are hopeful and optimistic.

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

Okay, that's great. And then maybe just for Jocelyn on -- to go back to the FX tailwind. You might have touched on it, but can you confirm if you're thinking about locking in perhaps your next 12 to 24 months of U.S. dollar cash flow here at current rates of, call it, $1.40, just to, again, lock in some of that tailwind to offset the impact of COVID?

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

Yes. Patrick, we're thinking about it every day, and we're on top of it, and we have done some extra hedging as we've seen the rates increase. So you're right on the mark there, and that's something that we look at every day. And we're doing more of it.

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

And maybe can you just remind us on the negative outlook from S&P outside of the COVID uncertainties and whatnot, what needs to be achieved to get back to the stable outlook and perhaps your internal expectations on when you might hit those targets?

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

I think for -- S&P for us, the negative, would look similar to the industry outlook, is all related to them getting comfort with how the short-term cash flows are impacted and how we set up potential regulatory mechanisms to deal with them and how long it's going to take to recover some of those costs over time. So I think they just want to get comfort that the regulatory mechanisms are working as intended, which we have a number of these mechanisms and to have some visibility for the sort of the long-term recovery of cash flow.

So once I think regulators get through sort of solidifying these mechanisms and implementing these mechanisms in middle of COVID, I think that S&P for us will get comforted on our cash flow.

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

And any comment on when you might decide to file for future rate recoveries due to credit losses? Is that a back half of 2020 process and perhaps what's the time lag for those recoveries to start showing up in the results?

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

Yes. So that's a bit of a tough question because all of our utilities will be impacted differently, and it will be either material for some or not material for others. Again, we're not expecting it to be material for Fortis, watching it quite closely, clearly. But I suspect that we will have to have a little bit more time to assess credit losses before any of the utilities stand in front of the regulators looking for recovery.

Operator

We have no further questions at this time. I would like to turn the call back over to Stephanie Amaimo for any closing remarks.

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

Thank you, Lisa. We had enough...

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

Stephanie, it's Barry. I just want to maybe add a closing comment before we go. I just want to say to everyone, I'm so proud of my team and all the employees of Fortis and how we responded to this crisis. We're doing our darndest to make sure we can deliver safe, reliable energy right now. And I'm also proud of the industry generally. This industry has responded so well to this crisis. And obviously, knock on wood, hopefully, we can keep doing that. And also I'll tip my hat to regulators. Regulators are working with us, with the customers, to try to make sure we come through this in a good spot where we're taking care of our customers and also taking care of the utilities. And I'm very, very optimistic that we'll come through this crisis in good shape and get back to normal business once we get to the other side of it. So thank you very much. Back to you, Stephanie.

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

Thank you, Barry, and thank you, everyone, for participating in our First Quarter 2020 Results Call. Please contact Investor Relations should you need anything further. Thank you for your time. Stay safe, and have a great day. Thank you.
