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

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Jessa, and I will be your conference operator today. Welcome to the Fortis Third Quarter 2018 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, Jessa, and good morning, everyone. And welcome to Fortis' third quarter results conference call. I'm joined by Barry Perry, President and CEO; and Jocelyn Perry, Executive VP and CFO; other members of the senior management team, as well as executives 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. All non-GAAP earnings measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our 2018 third quarter MD&A. Also, unless otherwise specified, all financial information referenced is 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. We had a strong quarter reflecting our focus on growing our regulated businesses. Before we get into those details, I want to give you a quick update on a few items that have transpired over the last month. First of all, I want to send my thanks to our team in British Columbia as they manage through a tough situation caused by the rupture of Enbridge's gas transmission line. The shutdown of Enbridge's mainline servicing 700,000 of our gas customers presented us with a potential loss of supply. Thankfully, Enbridge was able to get its parallel 30 inch transmission line back in service quickly.

Just this week Enbridge announced that it had repaired the main gas line and expect to have it back in service in a few days. Out of the 2 lines are expected to run at a maximum of 80% capacity through the winter. Customers have been supportive by conserving gas consumption. We continue to closely monitor Enbridge's progress. And we thank our customers, employees and industry partners for their diligence and cooperation as we manage through the situation.

Switching gears now, last month we released our 2018 Sustainability Report. This comprehensive report follows 3 previously issued environmental reports. And focuses on our environmental commitment, our governance practices, our people and our involvement in the communities we serve. As highlighted in the report, we reduced our carbon intensity by over 60% since 2015. In addition, we've made progress on gender diversity, with 42% female representation on our board. And nearly a third of our executives within the Fortis group being female.

The most positive part of the past few weeks was holding our Investor Days in Toronto and New York, where we issued our new 5 year capital plan and extended our dividend guidance to 2023. I'll get into additional details on this shortly but before we do it -- before doing so, I wanted to provide an update on a decision that ITC received from FERC on ROE matters just after our New York Investor Day.

As you are aware a third-party complaint was filed this past April challenging the independence incentive adders included ITC's MISO subsidiary's transmission rates. On October 18, FERC concluded that ITC was no longer fully independent and reduced the incentive adder to 25 basis points, down from the approximate 50 basis points that ITC was earning in rates previously approved by FERC. ITC has operated on a standalone, independent basis since our acquisition. Therefore ITC is currently reviewing the order and considering its options including rehearing and appeal. As a reminder each 10 basis point change in ROE at ITC equates to about $0.01 EPS impact for Fortis.

Around the same time FERC also issued its order related to the remand of the first NETO ROE complaint. This recent order provides guidance on FERC's new methodology for establishing ROEs, which is expected to be used in addressing outstanding complaints. Essentially, FERC has adopted a new approach to setting ROEs, which averages the results of several different benchmark methodologies, instead of relying solely on the previous 2-step discounted cash flow methodology.

We view this as directionally positive for transmission owners as the new methodology uses more inputs, which is expected to result in a broader zone of reasonableness. This should provide more stability to the ROE calculation, which may reduce the number of future complaints.

Although we await next steps from FERC on the MISO ROE complaints, the new methodology appears to be generally constructive and we will look -- we look forward to getting closure on these outstanding complaints.

At our recent Investor Days we announced our new $17.3 billion capital expenditure program for the next 5 years. This program reflects a $2.8 billion increase from the prior year's plan. And equates to an average of $3.5 billion in annual capital expenditures. The $2.8 billion increase is driven by regulated investments in grid modernization, the delivery of cleaner energy and natural gas infrastructure.

Our capital investments yield a 3 year compound annual growth rate, on rate base of 7.1% and a 5 year compound annual growth rate of 6.3%. These growth rates are in line with industry and support our average annual dividend growth target of approximately 6%.

The capital program is virtually all regulated, with 99% of our capital investments plan for our regulated businesses. The plan consists of a diverse mix of high -- highly executable low-risk projects. For example, only 23% or 10 projects have a total project cost of over $150 million each. The bulk of our plan consists of capital needed to maintain and upgrade our existing infrastructure. Geographically, the capital plan is weighted towards the U.S., with 55% to be spent at our U.S. utilities. This is followed by 42% in Canada and 3% in our Caribbean operations.

We continue to focus on finding additional opportunities to grow beyond the current plan for the benefit of our customers and our shareholders. These opportunities include further energy network modernization investments across the group the Lake Erie Connector Transmission Project at ITC, the move towards renewable power in the Caribbean, LNG infrastructure expansion opportunities in British Columbia, as well as storage and transmission opportunities in Arizona.

Now moving to my favorite slides. In October we announced a quarterly dividend increase of 5.9%. This marks 45 years of dividend increases. This is a record we are very proud of and one that we intend to continue. Our strong growth profile coupled with our highly regulated transmission and distribution businesses gave us the confidence to extend our dividend guidance. We expect to maintain our dividend payout ratio range of mid 60s to low 70s over the next 5 years. I will now turn the call over to Jocelyn for an update on our third quarter results.

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

Thank you, Barry. And good morning, everyone. As shown on Slide 9, adjusted earnings per common share was $0.65 for the quarter, up $0.04 compared to last year. Results for the quarter were driven by strong performance from our regulated businesses. On a year-to-date basis, adjusted earnings of $809 million was up $15 million from the previous year. But adjusted earnings per common share of $1.91 was down slightly compared to the first 9 months of 2017.

There are several items impacting earnings growth in 2018 that are not reflective of our ongoing business. These include mark-to-market losses on natural gas derivatives associated with our Aitken Creek natural gas storage facility and U.S. tax reform impacts. These 2 factors alone temper earnings per common share by $0.08 on a year-to-date basis. As a reminder the Aitken Creek business hedges its physical gas inventory with forward financial instruments. U.S. GAAP requires these financial instruments to be valued at the current spot rate on each reporting date. And this creates unrealized gains and losses. Again, these accounting adjustments are purely timing.

Turning to our capital program, our $3.2 billion 2008 (sic) [2018] capital program remains on track for the year with approximately $2.3 billion spent to the end of September. As noted on the previous slide adjusted earnings per share increased by $0.04 compared to the third quarter of 2017. Key drivers impacting the quarter's performance included growth in ITC's transmission business related to the execution of its capital plan, which improved EPS by $0.02 compared to the third quarter last year.

Performance at our Canadian and Caribbean utility operations improved earnings per common share by $0.02. This increase was driven by the timing of purchase power cost at Newfoundland Power and the recognition of a capital track of revenue true up at FortisAlberta.

In addition FortisTCI had higher electricity sales during the quarter due to Hurricane Irma's impact in the third quarter of 2017. This increase in earnings per common share was partially offset by higher operating costs and interest expense at FortisBC Energy.

Changes in foreign exchange rates resulted in a $0.02 increase in earnings per common share, the average exchange rate was $1.31 this quarter compared to $1.25 in the third quarter of last year. In addition, earnings at UNS and Central Hudson netted to an overall $0.01 increase in earnings per common share during the quarter. Favorable electricity sales at UNS, associated with warmer weather was the key driver of growth.

Unrealized net mark-to-market losses on derivatives at the Aitken Creek natural gas storage facility negatively impacted earnings per common share by $0.01. As discussed earlier this $0.01 impact is purely timing. Energy infrastructure was also $0.01 lower during the quarter resulting from decreased hydroelectric production in Belize as a result of lower rainfall.

And finally, an increase in the weighted average number of common shares outstanding as a result of a strong uptake in our dividend reinvestment plan lowered adjusted earnings per common share by $0.01 compared to the same period in 2017. Approximately, 40% of our shareholders elected to reinvest their quarterly dividends on September 1, 2018. It was our highest percentage of dividends reinvested ever.

You will notice that U.S. tax reform did not have a net impact on earnings per common share during the quarter. The negative impacts of U.S. tax reform for the quarter was negated by growth at UNS since rates were last set.

Now turning to the first 9 months of 2018. Adjusted earnings per common share decreased $0.01 compared to the same period in 2017. As I mentioned earlier, both unrealized mark-to-market losses at Aitken Creek and U.S. tax reform negatively impacted earnings per common share by $0.08. We still expect U.S. tax reform to impact consolidated earnings by 2% to 3% for the full year.

Growth at ITC equated to an increase in earnings per common share of $0.04 and was mainly driven by rate base growth. This growth was partially offset by higher business development costs related to our efforts to progress our hydro pump storage opportunity in Arizona. Approximately $7 million of business development costs has been spent this year for this initiative.

Our other U.S. utilities improved earnings per common share by $0.03, driven by the rate settlement implemented at Tucson Electric Power in February 2017 and favorable weather in Arizona. Performance at our Canadian and Caribbean utility operations contributed a $0.03 increase in earnings per common share.

Drivers of growth include rate base and sales growth, insurance proceeds received from FortisTCI related to Hurricane Irma and a capital tracker true up at FortisAlberta. These positive factors were partially offset by lower earnings at FortisBC Energy due to higher operating costs and interest expense. And our non-regulated energy infrastructure assets added $0.02 to earnings per common share. The increase was driven by higher gas volumes and favorable pricing at Aitken Creek.

Partially offsetting growth in our utilities was unfavorable foreign exchange of $0.02 with the exchange rate declining from $1.31 to $1.29 and $0.03 mainly driven by higher weighted average number of common shares as a result of our dividend reinvestment plan and a $500 million common equity private placement that occurred in March 2017.

As Barry noted earlier, we recently announced our new capital expenditure program of $17.3 billion for the period 2019 through 2023. This capital plan is expected to be funded mostly through net cash from operations and debt financing at the regulated utilities. This accounts for approximately 92% of the expected funding requirement.

Other sources of funding include assumed asset sales, which are expected to yield $1 billion to $2 billion in proceeds over the planning period, a very small increase in non-regulated debt and contributions from stock purchase plans. We do not require any discrete equity to fund the plan and we expect our ATM program to remain available to provide further financing flexibility.

Fortis' low business risk profile and standalone nature of each regulated subsidiary supports the investment grade credit ratings that we have today. Given our concentration on our regulated businesses and our focus on transmission and distribution, we expect no change to Fortis' business risk profile, which is described as strong or excellent by credit rating agencies.

The funding strategy also supports improving our credit metrics over the 5 year plan, the holdco debt to total debt is expected to decrease by 13% through 2023, reflecting a higher proportion of regulated debt to fund growth at the utilities. With the new plan together with our funding strategy we do expect to maintain our investment grade credit ratings.

We continue to have a stable regulatory outlook. Barry covered the FERC related matter, so I will not repeat anything there. Although not one of our significant regulatory decisions, I wanted to note that the Arizona Corporation Commission issued an order in TEP's phase 2 rate case in September. The decision ended solar net metering in TEP's service territory. Residential and small commercial customers who install solar will now receive a monthly bill credit for excess energy exported to TEP's distribution system. The export rate will be updated annually based on TEP's actual solar PPA and generation facilities costs, subject to a 10% maximum decline.

With regard to other regulatory matters, we intent to file 2 rate cases in 2019. At Tucson Electric Power we plan to file a rate case early next year that will be based on the 2018 test year. As you will recall, rates were last set based on a 2015 test year. Since then TEP has invested nearly US$1.5 billion in capital to serve its customers.

In addition, FortisBC also expects to have a PBR renewal filing in early 2019 as the current term is set to expire at the end of next year.

I'll now turn the call back to Barry for some concluding remarks.

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

Thank You, Jocelyn. Fortis is comprised of well run utilities with 97% of our assets related to regulated utility. We are one of the most diversified utility businesses in North America. We have a strong growth profile with a 7.1% rate base CAGR over the next 3 years and a 6.3% rate base CAGR over the next 5 years. This growth supports our 6% dividend growth guidance to 2023.

In addition, we are working on incremental growth opportunities not yet included in our capital plan. We remain confident as we finish 2018 and look forward to continuing to execute well on behalf of our customers and shareholders in 2019.

I'll now turn the call back 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) Your first question comes from the line of Robert Kwan from RBC Capital Markets.

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Just wondering Barry if I can get your thoughts on recent U.S. M&A just generally but as it ties back to you just to confirm that you're not planning on getting involved going forward with this trend. As well as how -- this may or may not factor into that $1 billion to $2 billion of asset monetizations, I know you focused on regulated, but is there any thought if it keeps up trying to take advantage of high valuations on the regulated side.

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

Our focus Robert, is really growing the business that have, the portfolio of utilities that we currently own. And we've really have now achieved a marked change, I would say, in our growth rate since we purchased ITC. And ITC is growing faster, our U.S. business is growing faster, and some of our Canadian businesses are actually going faster as well. And we still have some work to do in probably in that area. So that's where our attention lies. We're really not focused at this point on M&A.

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And does that feed into just what we're seeing if that accelerates as to how you might think about the asset monetization program?

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

I don't think so, Robert, our focus really is -- it's hard enough to buy a utility let alone sell one. I'm really not focused in that area. Clearly as public company, if someone is prepared to make Fortis an offer for some part of our business, we would have to evaluate it, but that's not something that we're looking at initiating at this point in time.

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

And if I can just clean up a couple of line items in the quarter. You'd explain kind of year-over-year for both Belize and UNS. I'm just wondering are you able to quantify how much the lower hydrology in Belize was versus say the long-term average? And then for UNS what the impact on weather versus normal cooling degree days would have been?

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

I don't think so, Robert, I think year-to-date in Belize were probably not too bad. It's just the third quarter. Usually, we get a little bit of rain in the quarter. But it was a little slow. Actually, year-to-date for the plan there, we're actually running ahead of our budget. So I'd expect for the full-year that we'll be consistent with our annual targets.

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

And then for UNS?

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

In terms of the weather is that what your question was?

Robert Michael Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Yes, how much weather in the quarter versus normal?

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

I'm going to let David weigh in. But I may be just make a general comment about Arizona, that business continues to do really well, thinking about our last year annual earnings around, I think US$220M or something like that U.S. The economy still remains strong and it's improving, lots of new jobs being created in that market. And I've been saying for some time that -- I would say Arizona for that jurisdiction, I'm the most optimistic about at this point and in terms of the long-term growth there. I'm not putting any pressure on David. So David, maybe you can comment, sort of the summer weather patterns versus historical patterns.

David Hutchens - *Fortis Inc. - Executive Vice President, Western Utility Operations and President & CEO of UNS Energy*

It'll keep looking good if we keep up with this hot weather. But Robert, you know that this weather normalization is a little bit more of an art than a science. But we've calculated for the third quarter effect is probably somewhere around USD 8 million to USD 10 million. We saw the hottest September on record. Also one of the hottest July's as well. So overall, the quarter was very strong from a weather perspective. If you just want a little piece of data, for September, our average temperature in Tucson was 84.9. That's average, not average high, but average temperature during the entire month, so it was a pretty hot month for us.

Operator

Your next question comes from the line of Ben Pham from BMO.

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

On the -- the first question on the MISO ROE. Are you able to get a sense of what the base ROE could be in at MISO, just looking at the 4 different methods that the FERC will be looking at and seeing what they've determined in New England?

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

I would say we're not actually able to disclose that at this point. Robert I would -- the process -- I'll let Linda comment here as well because she is the -- definitely the subject matter expert on FERC -- is basically the way I understand with the New England transmission owners, they have to file their responses to the recent order at FERC within 60 days. And then there is a 30-day period allowed for the complainants to respond to that filing. And then FERC has to really take that material and then make a final order on those complaints. And we're obviously hopeful that we can read through that process into MISO. The complaint is MISO. But those are just assumptions on our part at this point in time. And so Linda, maybe you can add a little more color around that.

Linda Apsey - *ITC Holdings - President & CEO*

Yes, Barry, I would wholeheartedly agree. I mean obviously, as Barry indicated we're still awaiting final decision in the NETO case as well as the MISO case. And I think it would be premature and speculative of us to, sort of, calculate numbers as it applies to the MISO case. However, I would say based on the methodology and, sort of, the 4 different sort of methodologies that they have established, I think as we previously stated, we do believe the new methodology, the new construct is supportive of investment in transmission and having more stable predictable ROEs. I think certainly the new methodology provides longer durability for the ROEs and can potentially minimize, sort of, this pancaking of rate complaints that we have experienced. So I think overall we feel positive and it's constructive. But certainly premature, I think to sort of put out specific numbers as it relates to the MISO case.

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

Sticking with ITC, is '18 when you look at year-over-year growth and even think about Q4, you have tax reform impacts in there and BD expenses , you also have some kind of rate based growth. Is this a year of really just limited earnings growth and then you really pick up the growth in the next year as tax reform starts to ease out of the numbers?

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

Yes, we obviously have the independence adder reduction, Ben, that you have to factor in now on an annual basis. But I would say for me, ITC and when we bought that business, their CapEx was declining in the outer years. They have done a great job of finding opportunities to invest in their infrastructure. That's no longer the case. And we've increased the growth rate, I think, annually from about 6% to 7% plus at this point in time. So for me when I get a sense of maybe improving stability around ROEs and a stronger growth rate at ITC, that's what we were hoping to accomplish when we bought that business. And it makes the ITC transaction so much better for Fortis overall. And what's neat about ITC obviously is, is the FERC regulatory compact the formula rate setting process, where once you spend your capital, it really does get baked into your rates very quickly far more faster than any other state regulated or provincially regulated jurisdiction in North America. So ITC's growth should track very nicely with its rate-base earnings growth, with its rate-based growth over that 5 year period.

Operator

Your next question comes from the line of Nicholas Campanella from Bank of America Merrill Lynch.

Nicholas Joseph Campanella - *BofA Merrill Lynch, Research Division - Research Analyst*

Just to keep on the ITC discussion here, the FERC ROEs, can you remind us just what's assumed in your own forecasts relative to the order that we just saw and where the MISO complaint stands right now?

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

My -- Linda, my numbers in my head are -- with the independence adder included now at the lower level. We're at about 11.07.

Linda Apsey - *ITC Holdings - President & CEO*

Yes, that's correct. So 11.07 would assume the 10.32 base ROE that came out of MISO complaint #1 plus 75 basis points of incentive adder. And 75 is 50 basis points for the RTO adder and now it's 25 basis points for the independent's adder or Transco adder I should say.

Nicholas Joseph Campanella - *BofA Merrill Lynch, Research Division - Research Analyst*

And then just moving to BC Gas quick. I know we all saw the FID by your peers on the LNG side. Can you discuss if that's kind of spurred any additional interest in your own facilities? And then if you have any expectations around the timing of the Woodfibre opportunity too, that would be helpful.

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

I would say there has been no waning of interest in our facilities. We're having good conversations for some time on our -- especially our Tilbury LNG facility and that plant is zoned for LNG production and it's highly expandable. So we continue to have good dialog there. And I expect that to continue. And frankly, LNG Canada's announcement, I think, it's just supportive all around in terms of tone for investing in gas infrastructure in British Columbia. In terms of Woodfibre, we really are engaged a lot right now with the Woodfibre folks. They clearly have still not made their final investment decision. But our sense is that we'll know a lot more in the next few months here. It's getting close, and -- but ultimately we are beholding to them, they are the customer and we have to build the pipeline to get them their gas. And we await their final investment decision before we can kick into high gear and start building the pipeline.

Operator

Your next question comes from the line of Rob Hope from Scotiabank.

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

Maybe just keeping with BC, just given the outage that we saw in the Spectra line -- are you looking at further diversification of fuel supply that could potentially lead to some sizable investment in your -- the southern edge of your pipeline system in BC?

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

The answer is we've been looking at this for some time Rob, you know we've always had the Southern Crossing line. And I've looked at over the years expanding the capacity on that line. But I think this just heightens our focus on these areas and storage is another area, frankly in the Lower Mainland. This just really brings into light the critical need for redundant infrastructure. Roger -- Roger is on the line. Maybe Roger, you can chip in and add your thoughts. But for me I think it's directionally positive for further infrastructure investment in the province.

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

Just echoing what Barry is saying there, we've always had those plans Southern Crossing would be the first step to see if we can extend that to tie into the lower part of the Enbridge system. And then we're looking for the ability to add additional storage on system. It wouldn't replace the throughput that Enbridge has. It would give us much more redundancy for peak weather days, which would help us through situations like this.

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

Any potential CapEx on the storage or -- the expansions on the Southern Crossing?

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

I would say no not at this time. Not at this time Rob our focus obviously is getting through the current situation. But clearly that will be part of our thought process as we focus on the next iterations of our 5 year capital plans. So I would think we'd have more to say next year about where we can get on those opportunities.

Operator

Your next question comes from the line of Ollie Primak from CIBC.

Ollie Primak - *CIBC World Markets - Analyst*

I'm calling on behalf of Rob Catellier here at CIBC. We just wanted to follow up with respect to the Enbridge gas line rupture. And with respect to it running at 80% capacity through the winter, wondering what the impact of that would be on the Fortis operations?

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

Roger. I'm going to go right to the source. Maybe you can give your thoughts on that.

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

Thanks for the question. Thanks Barry. From an operating point of view there's not a direct impact. None of our assets were impacted. What we are seeing now is depending on weather days we have, to put out a fairly strong conservation message obviously following closely Enbridge's ramp up plans to get to the 80%. Which is what they've been rated for by NEB. And frankly hoping that they can get through their integrity program and get back up closer to full capacity before the end of winter. The challenge for us simply is going to be on those peak cold weather days, where we have to rely on our storage assets both down in the U.S. as well as on system. So our concern baseline right now through the next couple of months, is just matching those peaks and working with Enbridge to hopefully they -- to see them get back up to speed quicker than what they said so far, which is 80%.

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

Thank you, Roger.

Operator

(Operator Instructions) Your next question comes from the line of David Quezada from Raymond James.

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

Just my first question on the U.S. midterm elections coming up I know I believe there are 2 seats available in the ACC, I'm wondering what your views are there and what parts of that race you're following.

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

I'm very -- hesitant to comment on anything, as a Canadian, on U.S. politics. David, I don't know if you even want to venture -- obviously, you're living in Tucson on that. But I know there's a lot to competition going on in Arizona. So David I don't know if you want to add any flavor.

David Hutchens - *Fortis Inc. - Executive Vice President, Western Utility Operations and President & CEO of UNS Energy*

I'd just say I'm going to like and get along with whoever's elected.

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

Just my only other question there, any conversations with the new government of Ontario yet on Lake Erie or any update on that side?

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

Yes, we've had some engagement on Lake Erie. So -- and it's been relatively positive I would say. But it does take some time to get -- with a new government to get everyone up to speed. And we're continuing to have those dialogs. What's great about Lake Erie is the strength of the project. The annual benefit that it can derive connecting these 2 markets together, the grid in Ontario with PJM. And when you have sort of the -- that kind of project, you just got to keep having the conversations and -- but, yes we've engaged with the province several times at this point.

Operator

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

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

Just a quick follow up, Roger, on your B.C. comments there. I just wanted to clarify the mechanics on any recourse your customers might have as it relates to not being able to meet peak demand. Or any recourse they might have just on rising fuel costs through the winter.

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

Yes, so on the recourse from an Enbridge perspective they've declared force majeure, so we don't see any immediate recourse to Enbridge. As far as our situation we would utilize deferral mechanisms that we have in place through our PBR. We have a revenue variance deferral account. We also have the concept of Z'd factors for O&M above a certain threshold for recovery from customers. Those are the 2 main ones. We also have commodity cost variance deferral accounts for increased costs here. Most of our gas is purchased up at station 2. The incremental gas supply that we may have to purchase could have an impact. But it's still early days on that. But we feel that there would be a reasonable deferral accounts in place with our current regulatory construct.

Operator

Thank you. There are no further questions. I would like to turn the call back to Ms. Amaimo for closing remarks.

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

Thank you, Jessa. We have nothing further at this time. Thank you for participating in our third quarter 2018 results call. Please don't hesitate to contact Investor Relations should you have anything further you need. Thank you for your time and have a great day.

Operator

Thank you for participating ladies and gentlemen. This concludes today's conference. You may now disconnect.