FORWARD-LOOKING INFORMATION

Fortis includes "forward-looking information" in this presentation within the meaning of applicable Canadian securities laws and "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, collectively referred to as "forward-looking information". Forward-looking information included in this presentation reflects expectations of Fortis management regarding future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "target", "will", "would" and the negative of these terms and other similar terminology or expressions have been used to identify the forward-looking information, which include, without limitation: the Corporation's forecast gross consolidated and segmented capital expenditures for 2018 and for the period 2018 through 2022; the nature, timing and expected costs of certain capital projects including, without limitation, the ITC Multi-Value Regional Transmission Projects and 34.6 to 69 kV Conversion Project, UNS Energy flexible generation reciprocating engines investment and Gila River Generating Station Unit 2, FortisBC Lower Mainland System Upgrade, Eagle Mountain Woodfibre Gas Pipeline Project and Pipeline Integrity Management Program and additional opportunities beyond the base capital plan including, among others, the Wataynikaneyap Power Project; targeted average annual dividend growth through 2022; the impact of US tax reform on the Corporation's near-term cash flows, earnings, credit metrics, customer rates, financing structures and EBITDA; statements related to the at-the-market equity program, including the timing, the receipt of regulatory approvals and the Corporation’s expected use of the net proceeds; the Corporation's forecast consolidated and segmented rate base for 2018 and for the period 2018 through 2022; and the expected timing of filing of regulatory applications and receipt and outcome of regulatory decisions; and statements related to the normalized payout ratio.

Forward-looking information involves significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking information. These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally, including those identified from time-to-time in the forward-looking information. Such risk factors or assumptions include, but are not limited to: uncertainty regarding the outcome of regulatory proceedings of the Corporation’s utilities and the expectation of regulatory stability; no material capital project and financing cost overrun related to any of the Corporation’s capital projects; sufficient human resources to deliver service and execute the capital program; the Board of Directors exercising its discretion to declare dividends, taking into account the business performance and financial conditions of the Corporation; risk associated with the impact of less favorable economic conditions on the Corporation’s results of operations; no significant changes in laws and regulations that may materially negatively affect the Corporation and its subsidiaries; and currency exchange rates. Fortis cautions readers that a number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking information. These factors should be considered carefully and undue reliance should not be placed on the forward-looking information. For additional information with respect to certain of these risks or factors, reference should be made to the continuous disclosure materials filed from time to time by Fortis with Canadian securities regulatory authorities and the Securities and Exchange Commission. All forward-looking information in this presentation is given as of the date of this presentation and Fortis disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

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

Client Id: 77

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

FTS.TO - Q4 2017 Fortis Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 15, 2018 / 1:30PM GMT

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Client Id: 77

CORPORATE PARTICIPANTS

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

Karl W. T. Smith *Fortis Inc. - Executive VP & CFO*

Linda H. Blair Apsey *ITC - President & CEO*

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

CONFERENCE CALL PARTICIPANTS

Andrew M. Kuske *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

Benjamin Pham *BMO Capital Markets Equity Research - Analyst*

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

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

Linda Ezergailis *TD Securities Equity Research - Research Analyst*

Robert Catellier *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Ruth, and I'll be your conference operator today. Welcome to the Fortis Q4 2017 Conference Call and Webcast. (Operator Instructions) At this time, I'd like to turn the conference over to Stephanie Amaimo. Please go ahead, Ms. Amaimo.

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

Thanks, Ruth, and good morning, everyone, and welcome to Fortis' 2017 fourth quarter and annual results conference call. I'm joined by Barry Perry, President and CEO; and Karl Smith, 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 this discussion will include forward-looking information, which is subject to the cautionary statement contained in the supporting slide show. All non-GAAP financial measures referenced in our prepared remarks are reconciled to the related U.S. GAAP financial measures in our 2017 annual 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*

Thank you, Stephanie, and good morning, everyone. Before providing details on our quarterly results, I would like to take a moment to note that we were deeply saddened by the passing of Michael Mulcahy, CEO of FortisBC during the fourth quarter. Michael was a longtime leader with Fortis and will be greatly missed. Roger Dall'Antonia was subsequently appointed CEO of BC operations, and we welcome him on the earnings call today.

2017 marked the combination of a successful 5-year period, in which Fortis more than doubled its size with the completion of 3 successful utility acquisitions in the United States. The integration of ITC, which was accretive to earnings per common share, the constructive rate case settlement in Arizona and strong execution of our capital investment program, underscore our financial performance for the year, reinforcing the strength of Fortis as a North American utility leader.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

2017 also brought some challenges. In early September our utility on the Turks and Caicos Islands suffered significant damage to its transmission and distribution network, following hurricane Irma's path of destruction. Although, devastating, we were able to restore electricity to all customers that had the capability to be reconnected in less than 60 days. This quick and safe response is a testament to our strength, culture and expertise. This marks one of our proudest achievements of 2017.

All in all, we executed very well in 2017, including reaching over $1 billion in adjusted net earnings for the year, a first for Fortis. We continue to invest capital in our business to enhance service to our customers in a safe, reliable and affordable manner. In 2017, we invested $3 billion in capital and reached over $25 billion in rate base. These investments support our earnings growth and the 6.25% increase in the fourth quarter dividend paid in December 2017. This dividend increase signifies 44 years of consecutive dividend payment increases.

Today, we reaffirm our $14.5 billion capital program, which is expected to improve the transmission grid, address natural gas system capacity and gas line network integrity, increase cyber protection and allow the grid to deliver cleaner energy. Our 5-year capital program consists of diverse mix of a highly executable low-risk projects. As you may recall, there are only 7 projects included, that have a total project cost of $150 million or greater. With the balance of the capital being spend on small projects, required to insure continued and enhanced performance, reliability and safety of the electricity and gas systems and to meet customer growth.

Karl will spend more time shortly to review how this translates into rate base growth for the company over the next 5 years.

Beyond the base capital program, our near-term development projects continue to advance. Last quarter, we highlighted the Lake Erie Connector project. This quarter, we're highlighting the Wataynikaneyap project in Ontario. Significant progress was made on the $1.35 billion Wataynikaneyap power project this year. The federal government announced $60 million in funding to connect the Pikangikum First Nation to Ontario's power grid. The OEB approved a deferral account for project development cost, and the project was included in the Ontario's long-term energy plan.

Remaining milestones include: finalizing a funding agreement between Watay and the federal and provincial governments; filing for a lead to construct upon reaching a funding agreement; and finalization of environmental approvals and permitting. This project is not included in our 5-year $14.5 billion capital plan. The amount of incremental capital added to our plan for this project will depend on the final funding agreement. We're excited to be involved in the signature project and plan to provide updates as the project progresses in 2018.

Aside from the Watay project, we continue to track other development opportunities, within and around our existing portfolio businesses. A brief update on ITC -- sorry the Lake Erie's project at ITC. This project is fully permitted in both, the United States and Canada. The project will open the door to electricity trading between the Ontario and PGM markets, and will improve the security and reliability of both energy grids. Remaining milestones include completing cost refinements and securing favorable transmission service agreements.

Overall, we are focused on growing our utility business. In support of this growth strategy, our board recently authorized an aftermarket common equity offering or ATM program, of up to $500 million subject to regulatory approval. This program is consistent with ATM program used by our U.S. peers. While we are not obligated to issue any common equity under the program, the ATM, along with other -- along with our dividend reinvestment program, provides flexibility to support our near-term development projects. The offering is subject to certain regulatory approvals as required, but we plan to finalize the ATM, later this quarter.

The strategic push into the U.S. has resulted in strong adjusted EPS growth over the past 5 years with a compound annual growth rate of 8%. Even when you exclude our recent U.S. acquisitions, Fortis has had strong growth in its business. Excluding our U.S. acquisitions, our rate base grew by a compound annual growth rate of 7% over the past 5 years. That is strong growth. We are now 1 of the top 15 investor own utilities in North America, based on enterprise value. We are proud of the diversification and scale, we have achieved and are now focused on growing the portfolio of businesses that we operate.

We're confident, our capital plan and associated rate base growth supports our 6% average annual dividend growth targets for 2022. In October, our Board of Directors declared a fourth quarter 2017 dividend of $0.425 per common share, an increase of approximately 6.25% from the $0.40 paid in the third quarter of 2017. This translates into total dividends paid of $1.63 per common share for 2017 and a payout ratio of 64% based on

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

adjusted earnings of $2.53 per common share. We have increased our dividend for 44 consecutive years and have one of the longest records for a public company in Canada. This is a record we are proud of and continue -- and expect to continue.

I'll now turn the call over to Karl for an update on our fourth quarter and annual 2017 results.

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

Thanks, Barry. Good morning, everyone. Our fourth quarter and annual 2017 financial results were, again, quite good. Adjusted earnings for the quarter were $259 million compared to $243 million for the same quarter last year. Adjusted earnings per share were $0.62 for the quarter down $0.01 compared to the same quarter last year. For the full year, adjusted earnings exceeded the $1 billion milestone, which was higher by $338 million compared to the previous year. Adjusted earnings per share were higher by 10%, or $0.22, reaching $2.53. Cash flow from operations of $2.8 billion in 2017 represents an increase of 46% compared to 2016. The increase was driven by contributions from ITC and higher earnings from UNS.

As noted on the previous slide, adjusted earnings per share decreased by $0.01 compared to the fourth quarter of 2016. There were a number of puts and takes affecting our comparative earnings per share, a $0.02 increase was driven by results at Aitken Creek and largely relates to mark-to-market accounting for natural gas hedges. During the fourth quarter, there were $14 million of unrealized gains recognized, compared to an unrealized loss of $3 million for the same period in 2016. This was partially offset by tax adjustments, associated with the increased tax rate in British Columbia. UNS contributed $0.01 to adjusted earnings per share quarter-over-quarter. The main driver was new rates effective February 2017, at Tucson Electric Power.

Changes in foreign exchange rates resulted in a $0.02 decrease in the fourth quarter earnings per share over the same period in 2016. The average U.S. dollar to Canadian dollars foreign exchange rate was $1.27 this quarter, down from $1.33 in the fourth quarter last year. Strong uptake in our Dividend Reinvestment Plan and the resulting increase in common shares outstanding, lowered adjusted earnings per share by $0.01 compared to the same period in 2016. Earnings variances at our other regulated utilities netted to a $0.01 decrease in earnings per share quarter-over-quarter.

Moving on to the full year 2017. Adjusted earnings per share increased $0.22 compared to the full year 2016. UNS has very good performance in 2017, improving our adjusted earnings per share by $0.16. The revenue impacts resulting from 2017 rate order and more favorably priced wholesale electricity contracts contributed to higher earnings.

Aitken Creek contributed a $0.09 improvement in adjusted earnings per share, largely reflecting unrealized gains on the mark-to-market accounting for natural gas hedges and a full year of contribution from the facility, which was acquired in April 2016. These increases were partially offset by tax adjustments to reflect the increased tax rate in British Columbia.

ITC contributed $0.06 to adjusted earnings per share for 2017 after considering finance charges and increased common equity associated with financing the acquisition. For the first year of our ownership the acquisition was approximately 5% accretive to earnings per share.

Partially offsetting these increases were decreased earnings from our other regulated utilities, driven by the impact of Hurricane Irma in the Caribbean. In addition, there was a higher weighted average number of common shares outstanding.

Foreign exchange impacts resulted in a $0.03 decrease in adjusted earnings per share over 2016. The average U.S. dollar to Canadian dollar foreign exchange rate was $1.30 in 2017, down from $1.33 in 2016. As a reminder, earnings are not significantly affected by U.S. dollar to Canadian dollar foreign exchange fluctuations. The hedging program implemented in the third quarter of 2017 utilizes forward sales contracts for a portion of our U.S. dollar cash flows and reduces our earnings per share exposure from $0.07 to approximately $0.06 for every corresponding $0.05 change in foreign exchange.

Like other companies, we are still interpreting the various pieces of the recently enacted U.S. tax reform legislation, but we did want to take a few moments to discuss the expected impacts to Fortis.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

In order to quantify the expected impacts, we use the following major assumptions: firstly, we assume that the interest deductibility exemption applies to holding company interest expense; secondly, we assume excess deferred tax liabilities will be amortized, as required by legislation, over the remaining lives of the applicable assets.

Lowering the U.S. corporate tax rate from 35% to 21% results in a negative impact to earnings. For 2017, we have taken a one-time, non-cash write down of $146 million as a result of remeasuring deferred tax assets using the lower tax rate. We expect earnings per share to be approximately 3% lower, largely related to the holding company interest expense being deducted at the lower tax rate of 21%. But there are a number of positives to U.S. tax reform.

The new legislation provides an opportunity to reduce rates to customers. In the coming weeks and months, we will be working with our regulators to determine the best options for delivering these tax benefits to our customers. In addition, the bonus depreciation exemption and lower deferred tax liabilities will have the impact of increasing rate base, and I'll provide additional details on that impact in a moment.

Over the long term, the lower tax rate presents opportunities to advance needed investments in energy infrastructure to the benefit of customers. Further, our cross-border financing structure is not expected to be impacted by U.S. tax reform.

The lower corporate tax rate will reduce the recovery and collection of tax expense from our U.S. customers, which has the effect of reducing near-term cash from operations at Fortis.

Prior to U.S. tax reform our credit metrics were improving steadily. U.S. tax reform has temporarily impacted our FFO to debt credit metrics, however, the impact is expected to be lower relative to some of our U.S. peers, given that approximately 40% of our assets are located outside of the U.S. This impact is not for a sustained period and in fact, we expect to recover by the end of next year given the expected growth in our utility business.

As a reminder, many factors go into a credit rating, the most notable is Fortis' low-risk business, which is primarily comprised of regulated transmission and distribution assets with limited generation. We are confident, we will navigate through the near-term cash flow impacts and remain committed to preserving our investment-grade credit ratings.

U.S. tax reform has eliminated bonus depreciation for our sector, which in turn, increases rate base. By 2022 we expect rate base to approximately $700 million higher over our prior forecast. This results in a 5-year compound annual growth rate of approximately 5% for the period of 2017 through 2022. Representing a 50 basis point increase over the prior forecast. The 3-year compound annual growth rate through 2020 is now expected to be approximately 6%.

Overall, U.S. tax reform provides savings to our customers and supports further investment to deliver safe and reliable energy while enhancing the earnings power of our U.S. businesses through improved rate-base growth.

From our liquidity perspective, our consolidated credit facilities totaled approximately $5 billion. At the end of 2017, there was $3.9 billion of unused capacity. Including approximately $1.1 billion of unused capacity under our committed corporate credit facility.

Before getting into the remaining significant regulatory decisions for Fortis, we wanted to provide an update on FortisAlberta's recent performance based regulation or PBR decision. This decision establishes the going-in revenue requirement and capital funding mechanism for the second PBR term from 2018 to 2022. The decision did not grant certain cost items requested by the utilities in Alberta. A compliance filing in response to this decision is due to the regulator by March 1. We expect the earnings per share impact for Fortis Inc. to be minimal.

In 2018, we will remain focused on 2 significant regular proceedings. As we've discussed in the past, at ITC we await a decision from FERC on the second MISO ROE complaint, which is anticipated later this year.

At Central Hudson a rate case was filed last July with the New York Public Service Commission. The rate filing seeks to increase the allowed ROE to 9.5% from 9% and the equity component of the capital structure to 50% from 48%. An order is expected in August 2018.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

I'll turn the call back to Barry.

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

Thank you, Karl. To wrap up, we are very pleased with our ability to deliver strong results in 2017. We remain well positioned to execute on our organic growth strategy and to continue to deliver on our 6% dividend growth guidance to 2022.

We remained focused on delivering cleaner energy and are also taking steps to improve our disclosure and reporting on environmental and sustainability performance and programs. Our goal is to deliver sustainable growth to the benefit of our customers and shareholders over the long term.

And now, I'll 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) Your first question comes from the line of Robert Kwan with RBC Capital Markets.

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

Just wondering, starting with the ATM. How, you know really, should we think about this. Is this really the response on tax reform to kind of fill in the lost cash flow in the near term and address the directional weakening of the credit metrics? Or is this a sign of your confidence or intermittent confidence in the larger new growth initiatives coming onto the book this year?

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

I'd say, it's the latter, Rob. We clearly were -- we're really progressing some of these development projects that we have and are looking forward to updating our 5-year capital program later this year. And I would also say though like a drip program, that has a 2% discount, the cost of an ATM program is about that level. Large companies like Fortis in North America now. This is just another tool in our sort of -- a toolbox basically to raise equity in a very cost-efficient manner when we need to. And clearly, if something -- as we go through our ratings process, if something did come out of that process, I don't expect it to. We have the flexibility then to use this as well. So I think it's just the right thing to do for us for a lot of reasons at this point in time.

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

Got it. And I guess then just on tax reform and the near-term headwinds on cash flow. Can you quantify roughly, what you see that near-term cash flow loss to be? And how do you expect to kind of just bridge that gap or do you think you have room within the credit metrics just to absorb that?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

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

Rob, we're not going to give you dollar number. But I will tell you, we are running nicely ahead of the threshold metric. And -- so now we've taken a little bit of a smack, I would call it from U.S. tax reform. But we're going to come back above that fairly quickly in the next year. So pretty minor hit overall, I think. If you look at what Moody's is talking about in the markets about certain ranges, we're actually -- we're outside the lower end of that range, to give you a sense of size. So...

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

Got it. And maybe just to finish on the cross-border tax structure. Karl you mentioned that you expect it to be in place. Can you just give us some extra color on that, particularly with the pretty broad language in tax reform with respect to nondeductibility of cash flows that have a deduction in U.S., but change their characteristics as they enter the home country?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

Yes, I mean there's still a little bit of gray in all this, Robert, as you alluded to. And we've done a lot of scenario analysis here. And first of all, the value of that tax structure, just in case some people are wondering about the value of the tax structure change. And the value of the tax structure we're going to be filed up with, the deductions we're getting in Canada for income tax purposes. So the value really doesn't change as long as you assume that. It doesn't get hampered by the international tax components of the new tax legislation. Our reading of that, suggests that it doesn't affect us that way. And even if we do some stress testing on it, if there was to be an impact, it would be very small.

Operator

Our next question comes from the line of Rob Hope with Scotiabank.

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

Couple of more tax questions, unfortunately. The 3% headwind to EPS that you mentioned, is that a 2018 estimate? And would it be reasonable to assume that, that gets ground down as the rate base increases?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

Yes, you're right on there, Rob. But, I'm referring to the impact in 2018 and then it gets ground down fairly quickly after that and we get back to where we would have been otherwise.

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

Okay, that's helpful. And then we've seen in kind of initial positions by a number of your regulators on U.S. tax reform. But has there been any initial position on how FERC could create tax reform for ITC as well as when those changes would come into effect for rates?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

We don't have any specific indication yet, Rob. And I mean, FERC there will be a refiling that's required out of ITC with respect to FERC. It's less clear as to the impacted UNS, but the FERC regulated assets in UNS are quite small. So we suspect that they are down the list in terms of priority. So we'll have to wait till we see the refiling at an ITC. But things get adjusted really quickly on a FERC regulation, as you know. So -- and they are chewed up anyway. So, I mean the rates are current, except for this 1 impact then, it should be relatively straightforward, I think, to make the adjustments for that.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

I would add too, Rob, that the -- we're expecting that -- obviously, the line share of the tax benefit under the FERC regulation will go to customers and we'll see actually fairly significant decreases in transmission rates. And we are hopeful, obviously, that will allow more opportunities to invest further in some of those service territories. There is still lots of work that needs to be done. And when customers bills go down, it does help that sort of discussion on further capital investment. So...

Operator

Our next question comes from Ben Pham with BMO.

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

I wanted to clarify on the new rate-based figures you've provided. Has that mainly taken away bonus depreciation? You're not assuming investment deceleration or any sort of changes in amortization deferred liability?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

No. The only adjustment we made, Ben, was to incorporate the cessation of bonus depreciation. So it is just adjusting the math. We're not assuming any of the other added investment, which we think there will be, but we're not adding anything right now.

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

Okay, so it could be small room for upside?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

Yes.

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

And can I ask you also, just addressing of annoying you Barry on your views on organic growth versus acquisitions? And if your tone has changed there?

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

I'm over that. I apologize for snapping at someone in New York, I think it was. But -- Listen, I'll tell you that I'm really excited about the company's prospects, that -- with the base business that we have. We've been really focused on making sure we're spending the right amount of capital in all of our utilities. And that work is ongoing. Last year, we raised our capital plan to 5-year plan by $1.5 billion. We now have some really exciting projects that we're working on. But I would also say, we are working with every one of our utility businesses to make sure we're doing the right things for our customers. And I'm really expecting we're going to see further growth in that capital plan going forward. That's my -- where my gut is, at this point in time. As we think about rolling out that this year. So that's where I think most value lies for Fortis. And that's where our focus is right now.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

Operator

Our next question comes from Linda Ezergailis with TD Securities.

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

Maybe I can just get an update on your sense of the relative attractiveness of various financing options, given the growth that you see in front of you? You've introduced ATM to the mix. I'm wondering if you can comment on, how that stacks up versus other options including perhaps, selling less core assets or partial interest in utilities, preferred shares, when you might consider turning of the DRIP at this point going forward, if at all et cetera?

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

I'll make a general comment. Maybe Karl can weigh in a little bit, Linda. But we've never sold the utility business that we bought. So that's bit of a story of Fortis, I think. And the fact is, just about all the business is regulated at this point in time. So we had a -- like we did historically, hotels, the real estate, listen, we'll be getting out of that stuff. But really, everything we got is regulated. Yes, we have some Caribbean investments, we have some smaller utilities. But they are managed well and they're contributing. So I don't see that happening in the -- at least in the near term. So in terms of types of capital, when you can rate equity capital added 2% discount to the market. That's pretty good I think, compared to historically, as we grew our business, doing bought deals in Canada, with the banks that obviously, were probably in most cases costing triple that, I would think. So I think this is a really cost-effective way of raising equity capital. In terms of prep market, maybe Karl you can comment, but I don't think it is overly attractive right now. So...

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

Yes, depends on the point in time always, Linda, as you know. But I would say, generally speaking, our philosophy or strategy around financing really hasn't changed. Our thinking around it hasn't changed. And specifically, looking at that ATM program, I'd view that as just a normal evolution of our financing tactics. Its mainly profit by us being listed in the New York Stock Exchange now. It's a very popular tool, used by utilities in the U.S. So it's just -- we're just evolving like that as we continue to grow and change. But specifically on preferred market, it's getting a little bit better, but our current approaches, we continue to raise equity through our DRIP, it's sufficient for our needs and our current plan. The ATM is in place to give us flexibility and we just work on keeping the balance sheet looking proportionally similar to the way it is today.

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

Okay, that's helpful context. I don't know what's happening to the credit metrics at your U.S. utility Op. Co. levels. But would there be a case potentially to go to the regulators and ask for some kind of credit friendly release in the form of potentially, even sicker equity, even though you guys enjoy a pretty good sickness of equity especially compared to the Canadian space? Or even higher ROE or do you think that wouldn't be an option?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

Linda, I wouldn't look at it as cut and drive as that -- we got to resist the tendency to get too focused on the U.S. tax reform specifics. I mean this is always an ongoing discussion with regulators as to the metrics -- the financial metrics. That are appropriate in the jurisdiction, given where rates are and everything else so I think it's just another thing that gets added into the milieu of determining what the conversation with the regulator is. So on the -- on our U.S. utilities specifically, there is a fair amount of headwind in their credit metrics and you would have noticed, if you read the Moody's report, that none of those were mentioned in that particular report and that's the reason why, there is a fair amount of flexibility and headroom with our U.S. based utilities.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

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

I think one of the other things that has probably been missed a bit by all the chatter about U.S. tax reform is bonus depreciation is going away. The sector never really wanted it and we'd had it. Now it is going away and it is going to allow every dollar of investment to help rate base grow at a quicker rate. So the way I look at tax reform is been helpful to the economy, it's supporting our investment, allowing us to grow faster, that's the big picture for me and I'm pretty upbeat about where things are in the U.S. at this point in time.

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

And just a very quick final question on the Lake Erie Connector. Can you confirm that it won't be subject to any, sort of, major project review as contemplated with recent changes by the federal government? Are they grandfathered or what's going on there?

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

Linda, I haven't caught up with that. But I don't expect, this is a fully permanent project on both sides of the board, we have National Energy Board approval and a presidential permit. So those permits are still a fact. And they give us a fair amount of time to actually complete this project. But I'm not 100% on that. Linda, I don't know, if you can offer anything on that...

Linda H. Blair Apsey - *ITC - President & CEO*

Hi, Barry. No there's nothing that we are aware of, that will change the course of that project as you indicated. We have secured the permits on both sides and we're proceeding, there is nothing that would suggest anything changed in that regard.

Operator

Our next question comes from Andrew Kuske with Credit Suisse.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

I guess, Karl, when you were the CFO back in the early 2000 and then Barry you took over that role, the payout ratio was a lot lower and then it drifted upwards and now it's in the process of drifting downwards for the last few years. Just, where do you think the normalized payout ratio should be at this stage in time?

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

So Andrew, I'm really happy that we are at 64%, right? And that we're not higher. That's -- I sleep well at night, I'm sure Karl does as well. So, I would say that, where we really target -- our peer group is predominantly U.S. utilities. I would say most of those utilities are in that 65% to 70% range. And although, we don't publish a target in this area, if you look at the last few years, this is where we expect the business to be, is in that, sort of, 65% to low 70s over time, depending on what happens in any given year from a regulatory perspective. So I'm really, really feeling comfortable with where we are and when i look at hour 5-year dividend guidance, pretty confident we're going to execute on that. So...

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

And with that level, just an extension of the first question, you feel very comfortable affective with your capital retention and then just from a balance sheet positioning?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Absolutely, we do. I am not -- I know the agencies know we're pretty committed to our dividends and that goes into all their assessments of the company. I think they understand that management is -- that's part of the Fortis story of this long-term growth in the dividend, but also making sure we maintain investment grade credit ratings, they are balanced. And they've been very supportive of our approach on that. We're not going to be the company that goes and wacks up our dividend growth rate to 8% or 9% or 10%. We are just this conservative company that we're going to keep growing our dividends around that 6% level and with our earnings growth, we think that's a pretty powerful total return, sort of, combination.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

That's helpful. And then, May be, if I could just touch upon the taxes, just briefly. But just want to understand your assumptions behind the greater rate base growth, with the tax reform in place. Just, what were the assumptions that you put in to come up with the 50 bps?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

The only thing we really adjusted, Andrew, was the cessation of bonus depreciation. That alone translates into -- I mean, there is a smaller number that gets caught up in the deferred tax -- the regulatory liabilities, because they advestise represents a long period of time. But that amount is really, really minimal. So think about it primarily and almost entirely, to be just an adjustment for the depreciation going forward.

Andrew M. Kuske - *Crédit Suisse AG, Research Division - MD, Head of Canadian Equity Research, and Global Co-ordinator for Infrastructure Research*

So under pretty typical fashion, you got to just being very conservative on any kind of future impacts, that happened from economic growth?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

When we update our capital plan later on this year, we'll probably have to have something to say further with respect to that then. But as of right now, we're just keeping it very simple adjust for bonus depreciation and just let the math follow through.

Operator

Our next question comes from David Quezada with Raymond James.

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

Maybe just a longer term question on the U.S. utilities. I'm wondering, just given the potential for accelerated CapEx given tax reform. Do you have any sense of the nature of the opportunities that you might see of those utilities and what kind of timeline you'll be looking at to start moving forward with that?

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

We're working on all of that right now. Every one of our business is as focused on making sure that they have the right capital plans for their business. And there is all kind of areas. Now so much technology that's coming into the sector, trying to optimize the grid. There's lots of opportunities to be able to transmit more power, maybe eliminate the need for additional generation at some of the other utilities, you know that. So I know that, you look at ITC, it's an Independent Transmission Company. They're trying to make sure, that their grid is optimized to the best of its ability. And I can tell you, there's still room both there and also in terms of upgrading reliability in the Midwest. So we're optimistic in Arizona, clearly, facilitating

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Client Id: 77

additional renewable energy to come onto the grid. That's a big area, David Hutchens and his team down there are working on that. We also have another exciting project in Arizona that we are pursuing is storage, a large pump storage facility. And I know the commission in Arizona. One of the commissioners just came out with a new plan to have 3,000 megawatts of storage in Arizona by certain date. And our project could be included in that. And that would facilitate a major amount of renewables to come onto the grid. So we're pretty excited about all those opportunities and not in our base plan at this point in time. But we're working on some really, really exciting big opportunities that can move the dial for Fortis.

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

That's great. My only other question just on Eagle Mountain-Woodfibre opportunity. Have you had any other discussions or any update on the timing of the go ahead decision on the Woodfibre LNG facility?

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

No. It's in their hands, really. We're waiting for them to give the green light. I guess the final notice to proceed, I think it's what they're referring to it as now. We're thinking that could happen this year sometime, late this year probably. But we'll be ready to go when they're ready to go. But, you look at that project, they're essentially a customer that we're going to build a gas line to their plant. And -- so we are really waiting for them to give us the go. And when that happens, we'll be ready.

Operator

Our next question comes from Robert Catellier with CIBC Capital Markets.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

I just wanted to address U.S. tax reform again. But I think, all I need here is a clarification of what I've heard. So my understanding is that, in your assumptions for lower funds from operations. You are assuming that a rebate of excess deferred taxes for all your utilities, including FERC regulated assets and the only offsets, you're expecting a really true bonus depreciation. So no additional projects?

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

That is correct, Robert.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

And so I think I also heard, that you expect this will be for a short period and you'll have a recovery by the end of 2019. What factors are driving such a quick recovery? It seems a little aggressive. Is this just operating impacts from growth in everything else that is going on at the company? Or are there other mitigating tax or regulatory strategies that will get you back to even by the end of 2019?

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

No, it's simply just the continuing growth in our business. We're anticipating significant growth in 2017, if you get a chance to look at the numbers, you'll see the increase in cash flow as a consequence of our growth in the last couple of years. And it's just more of that. We're not assuming anything extra. We're just factoring in our projections for cash flow that would have been in the baseline to begin with.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

You think about it, Robert, spending more than $3 billion a year in a regulated capital at this point in time, that's generating a fair bit of growth. So...

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. So then -- if I look at your comments and boil them down. It looks to me like you'll have -- you'd be very close to your 11% funds from operations to debt and you know, you'll call it a drive by. And it won't be for very long. So there's no need for mitigating actions in order to defend your credit ratings, especially if the after-market program is improved.

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

Yes, it's not a bad summary, Robert. But I will tell you, that every company in our sector is going to go talk to the rating agencies over the coming months here. And we haven't had those conversations with them and I don't want to, sort of, prejudge where they're going to come from, but that not -- that will be a wise thing for me to say. I'm just optimistic in our business plan, the low risk nature of our assets and the prior conversations we've had with the agencies, now they look at that. Moody's talks about it on a sustained basis. You have to fall below metrics on a sustained basis. That's not what we're dealing with here. So we're pretty comfortable, that we're going to come through this nicely, and we have structured the business now with the flexibility needed to deal with anything that comes out of that process. And reiterate that we're committed to our ratings. So that's important to us, its part of the recipe, obviously. And we're looking forward to this conversations with the agencies in a few weeks so...

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

Robert, we're feeling pretty comfortable, where we're positioned with respect to all this.

Robert Catellier - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Yes. That color is actually helpful context. So my last question then is on Watay and what's required to proceed with that project? Is it really just a question of political will at this point?

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

There's lots of political will, Robert. We are very excited about where we are on that project. I would say to you, that the funding structure is very important, that's really the big next step. And we've been having really fruitful discussions with the province of Ontario and the federal government on those matters. Assuming we get that straightened out, there will be a process, we go through in this year, where we would, obviously, go out for an RFP for construction for building the line, it's a big project, 1,800 kilometers of transmission. And we locked down the cost, late in the year we'll probably file a lead to construct for -- with the regulator. And I would expect late in the year, early next year, the project would get the green light to go. So that's sort of the big things we would have to do in the next, sort of, I would say, 9 to 12 months. And we're making really, really good progress.

Operator

(Operator Instructions) Our next question comes from Christopher Turnure with JPMorgan.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

There was a comment in your disclosures today that said, you're confident that intrust deductibility will apply and you'll be okay on that front with tax reform. But then you also said that, if it doesn't, you're confident that your U.S. holding company debt will be under the 30% EBITDA cap. I'm wondering, how that would be the case, if you have zero EBITDA at the U.S. holding companies?

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

Chris, you're taking a view under that scenario that the EBITDA at the regulated businesses would not be included. We don't think we ever get to that sort of decision. But if we did, and you took that sort of position, that would be a very draconian view of the legislation. And I think, -- it's not what we are. We believe if you get to have to use the cap approach, you get to count all your EBITDA. And -- but we don't even think we need to go there, because we believe that our U.S. utility business interest all qualifies for the exemption.

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

And the underlying principal that we apply to that, Chris, is the taxes in the U.S. are filed on a consolidated basis. So from a taxpayer perspective, we are 1 unit. And obviously, under that concept, there is EBITDA from a regulated utilities, they are part of that calculation.

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

And there's nothing else in that unit other than our regulated business.

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

Okay. But I mean, technically, if interested deductibility did not apply to those pieces of the business, you would be over the 30% cap?

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

Of course, we would. But the risk of that is -- we're not thinking about that so...

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

Okay. And then just a bit of a modeling and segmentation question, when we look at your breakout for ITC, the rest of the businesses, the Fortis holding company. How much debt and interest expense at the ITC breakout segment is attributable to rate-base the rate-payers there? At the holding company and ITC or is it zero and everything is at the parent level?

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

No. Each utility has its own debt. There is whole co-debt. I think we're in the range of $6 billion of holding company debt when you include what Fortis has and what ITC has.

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

Okay, but is there essentially, the formal ITC holding company leverage still housed at the ITC segment now?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Client Id: 77

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

It is.

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

As you guys break it out?

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

Absolutely. And that will continue.

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

Okay, so then there's holding company debt there and then there is also the $6 billion of holding company debt at the Fortis...

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

$6 billion is total. All of it. ITC holding company debt plus Fortis holding company debt, it's all -- it's all Fortis -- it's all in $6 billion.

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

And that is all?

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

And that's Canadian dollars, Chris.

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

Got you. And in terms of your segmentation that, CAD 6 billion is all housed at the holding company as you report your segments, right now.

Karl W. T. Smith - *Fortis Inc. - Executive VP & CFO*

No, no. The ITC-specific debt would be in the segment, in the ITC segment. The debt issued by Fortis Inc. would be at the holding company -- in the holding company corporate segment.

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

Chris, we can give you the details on that off-line, if you want. After the call.

Operator

As there are no further questions, I would like to turn the call back to Mr. Barry for any closing remarks.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Client Id: 77

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

Thanks, everyone. And just to reiterate, we're really excited about our results in 2017 and looking forward to a strong 2018. Thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS