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# EDITED TRANSCRIPT

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## PRESENTATION

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

(Video)

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

Yes. Good morning, everyone. So welcome to our 2017 Investor Day. We've lots of exciting things to share with you about our plans for the next 5 years. So I'm Barry Perry, I'm the President and CEO of the Company. I'm going to give you an overview of our strategy today and our capital plan. First of all, I'd point out that we're going to be talking about some forward-looking information today, and I encourage you to read our forward-looking information statement contained on this slide. So the agenda for this morning, really, I'm going to take about 40 minutes, I believe, to talk about strategy and our capital plan. We're going to get Jim Laurito, who's next to me here, our EVP of Corporate Business Development, to talk about business trends, near and long-term incremental opportunities for the company. And then Karl Smith, our CFO, will talk about our financial outlook for the next 5 years. Then follow that, we'll have some Q&A and go to lunch. And then this afternoon, we have our roundtables. I will tell you that, throughout the morning, we do have a couple of videos we're going to share with you as well that I'm sure, you're going to find interesting. It gives you a sense of the kind of corporation that Fortis is.

So my team, the top group here are EVPs of Fortis Inc. They're all with me up here on the front table. I'm not going to introduce them one by one, but if you get a chance of today, please say hello to all these team members. They're doing a great job in moving our organization forward. The bottom tier is the CEOs of our larger corporations. They're here as well, and you'll get a chance to meet them all this afternoon at the roundtables. They'll be able to go into much more detail than I am capable of doing about the business plans of each of the businesses that they run. I will point out that Michael Mulcahy is unable to be with us today. He has 4 members of his team here with -- that will -- are highly capable of answering all the questions that you have about the FortisBC business.

So our strategy. It's pretty simple. We're really leveraging the benefits of our business model, our operating expertise, the footprint of our utilities to drive growth opportunities for our business, and we've been doing this for a long time. We just, this morning, announced our new dividend for December 1 and extended our guidance now to 2022. Clearly, we feel very confident about our business with our capital plans that we have in front of us, and they're higher than they were last year, and we're really just getting started on this. We're focusing on our grid investment, really making sure that our networks are at the right place, given every -- all the demands that have been placed on them right now. And I still believe there's another further opportunity to go beyond where we are in our guidance at this point, but we are focused on that at this point.

So strategic initiatives. Not a lot of difference here other than there's one big block that's missing. On the right side last year, we had strategic utility acquisitions. You don't see it there, because we're focused on organic growth. And as many, you don't believe it in the room, but believe it. We are focused on growing this business at a rate that is, at least, average for our sector in North America, not Canada, North America, and that's like 5% to 6% growth. And with that, when you factor in the quality of our assets being wires and gas LDCs, we think that's a powerful valuation, sort of, package for shareholders. And we're going to be talking about that constantly going forward, focusing on that growth in our existing businesses.

Some of the other slight changes in our strategy, strategic initiatives, are obviously, transmission with ITC. We are clearly focused on finding more ways to grow our transmission segment. Delivering cleaner energy, clearly, we have to get better every year when we have -- in terms of our energy portfolio. I will point out later in the presentation, we are mostly a wires and gas LDC business. We don't have very much thermal generation in our company. But even the little bit we have, we do have to get better every year and deliver cleaner energy to our customers, because they are demanding that energy.

So those are the primary changes from last year's strategies. The strategy shouldn't change a whole lot, and that's what you're seeing in Fortis other than that move away from the very successful acquisition record that we've had over the last few years.

So our business model. It's pretty simple. We have very small corporate head office, 60 people in St. John's, Newfoundland. We have 10 utility businesses now that operate on a substantially autonomous basis. They have the decision-making authority to run their businesses in their service territories. Most of those businesses actually have Boards of Directors. They have a majority of independent directors that oversee their business. And when regulation is local, the way it is in provinces and in states, we believe this is the best model for North America. And I cannot direct David Hutchens in Tucson Electric Power, the day-to-day operations of that business. I can't do that from St. John's. It has to be done locally. So our model really is keeping our teams close to our customers, close to our regulators, giving them the authority and accountability to run their businesses. And I could tell you, I've never been let down by that model. It doesn't mean though that we don't really think about our company as one company. So the thought of thinking globally, acting locally is, sort of, the business model that we have, and there's sort of a continuum, I think, of who's responsible for what. We have corporate oversight on strategy, capital attraction, investor relations. But then you go down for operations, planning, dealing with regulators and customers, that's all done at the local level. And I can tell you, that model works really well. And you're going to see some evidence of that near the end of today's presentations, because we're going to let you hear directly from our CEOs who are running these businesses. We put together a series of videos that I had nothing to do with, and it's pretty amazing how the culture of our company comes through, and our business model comes through in those videos.

So this is a busy slide as in -- you have presentations in front of you. I do want to give you a sense though, we are one of the lowest risk utility businesses in North America. We're highly diversified now. Looks on this slide that North America is a small place, but it's actually a pretty big place, and we're sprinkled around North America. We have some big utility franchises in Arizona with ITC, in the Midwest and BC in Alberta and Canada. Clearly, those are our big, big franchises. And then we have some smaller franchises in the Caribbean and in the Northeast. But we're really -- when you look at the quality of the businesses we own, again mostly wires and gas LDC businesses, the rating agencies look at us and say, we are one of the -- if not the lowest, one of the lowest business risk utilities in all of North America at this point.

So 97% of our assets are regulated assets. Again, from a business risk perspective, we're not into a lot of nonregulated stuff. 91% of that is T&D, transmission and distribution, both on the gas side and on the electric side. So again, focus is wires and gas LDCs. And now 60% of our business is in the United States. So we have quickly moved from a Canadian-focused business to a North American business over the last 5 to 6 years, and we serve now a total of about 3.2 million customers in North America.

We've achieved scale. It's, when you think about it, we're in the top 15 utilities in North America ranked by enterprise value. So one would say, well, you're top 15, you're 15 in the top 15. That's not achieving scale. I can tell you it is. There -- when you look at who's bigger than us, you have the big guys, Duke, NextEra, Southern, the few other integrated utilities. But coming from where we were, prior to our push into United States to get to where we are today, I don't believe that Fortis needs to go buy another company to achieve scale. We're already there. The -- really the benefits of adding another utility business to our group at this point in time from a diversity perspective are somewhat minimal in my view. So unless it's a very attractive acquisition that can add real value to our shareholders from an accretion perspective, we're not really looking at adding stuff for diversity or scale at this point in time, because we already really have achieved good scale in the North American utility space.

ITC, in my view, deserves a slide on its own. We closed the acquisition in October of 2016. And the closing went well. Now we're 1 year in. It's gone well. We've had a good year. When you buy something as big as ITC, you're always worried that you run into something material in that first period of ownership. We have not done that. The acquisition and the team are doing well at this point in time. And I just want to reiterate the quality of the business that we bought. It's 16,000 miles of transmission, 5x across Canada. That's what that's equivalent to, from St. John's, Newfoundland to Victoria BC, running a line 5x tell you how much infrastructure that is that we own now in the Midwest. And with the regulatory construct that FERC provides, 60% equity thickness, about 12% ROEs -- 11% to 12% ROEs, that's a pretty damn good regulatory construct. And that lifts the overall Fortis organization up. And so that ITC franchise brings a lot to our company, and I believe, in the long term, will be seen as one of the best things that Fortis has ever done. They are already getting involved, helpings us out with some other transmission work we're doing in, for example, Ontario. So that expertise that we have there is amazing. And if you ever get a chance to visit ITC's operation center in Novi, I think you'll be blown away by what they're doing and the technology they have, how they manage that Midwestern grid. It's all leading-edge stuff, and they really are the -- I think, the best in this business.

So Hurricane Irma hit Fortis Turks and Caicos in, sort of, early September. And I think if there's one thing that shows the value of the Fortis organization is our response to this storm and how quickly we got our team down there to help put the power back on. And we have a brief video that we're going to show on this now, so you get a sense of what we were dealing with.

(Video)

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

So I think that gives you a sense of how we come together in a time of crisis in our organization. I will add that the second wave of folks that we've sent down because we've now rotated another wave in, a lot of those came from our American utilities. A lot of equipment, in fact, came from the U.S., both New York and Arizona. We've shipped about 40 line trucks into Turks and Caicos, for example. We are now at a point where about 70% of the power is restored. It's going to take another few weeks to get everyone back up and running. But relationships with customers have been good, with the Governor and the Premier as well. So I think we're in reasonable shape there.

Cost estimates, currently around $25 million to $30 million for us. And clearly, we'll seek to recover those costs from our customers over the long term there. And I'm optimistic that, that'll be fine. But the first job when you run into these crisis like this is to get the power back on, and that's been our focus in Turks and Caicos.

So regulatory. Regulatory relationships are -- regulatory outcomes are critical to a successful utility. And because of our business model, that decentralized structure, where we have teams on the ground in each of our -- the jurisdictions that we operate in, Fortis has had a great track record in getting to constructive regulatory outcomes. And clearly, we are a very diversified business at this point in time. So from a risk perspective, in terms of dividends and cash flow, very little volatility for the company there. And I -- we just listed on this slide a few quotes from the various approval processes that we went through in the U.S. and the commentary that came from the commissions, when they approved our transactions. And I can tell you, each one of these processes was very intense, very thorough and ultimately the commissions got to a very positive view of what it would mean for Fortis to own the 3 utility businesses that we have in America.

So track record of rate base and EPS growth. The -- some of the stories we've heard from shareholders in the past, maybe hedge funds, those kind of things, is Fortis needs to buy companies to grow its business. For lack of a better word, that's bull. We've grown very, very nicely over the period that we've been buying our U.S. businesses on a same-store basis, I'll call it, for the last 5 years. Our rate base has grown by 7%. Our EPS has grown by 7%. That's pretty damn good. And so at the time when we probably made the biggest strategic move of any utility in North America, we moved from a Canadian business to a North American business, bought 3 public companies in America. At that same time, on an adjusted basis, we grew our EPS by 7%. I don't know what better execution could be other than that, frankly, and we're very proud of where we brought the company now, achieved that scale and now focusing on growing this portfolio of businesses that we have.

So just look at a few of these acquisitions, starting out with our electric acquisitions, back, way back in 2003 in Western Canada. We paid $1.5 billion for about $1 billion of rate base when we bought FortisAlberta and FortisBC from Aquila. Everyone thought we were nuts. We overpaid. It was the cheapest utilities ever bought in North America, in my view. Look at what the rate base is today. Alberta is at $3.2 billion, up from $600 million; and BC Electric business in a - focusing in the Kelowna, Ontario region, $1.3 billion on $500 million. So that $500 million of goodwill that we paid on $1 billion back then is $500 million on, what, $4.5 billion now equivalent. I think that's a pretty damn good record.

If you move to our gas business, where we bought about $3 billion of rate base, that's currently at $4.1 billion, back in 2007. Central Hudson, it's only been since 2013, where is Mike to? I just -- it seems like, it's longer than that, Mike, but anyway, we bought $1 billion of rate base. It's already at $1.5 billion at this point in time. That's not bad in just a few short years. And then in Arizona, $3.3 billion, I think, when we bought it. Close to $5 billion today. Arizona will probably be our leading -- lead growth business for a long time, in my view. It's a very dynamic jurisdiction, and we're doing a lot of good things in Arizona. So from a track record of buying quality businesses that are growing, this is evidence that we have achieved that.

So our track record on dividends. We always argue that it's CU or is it Fortis that has the record in Canada for increasing its dividends the most consecutive year. Based on some interpretation, I think we have the record. But we won't squabble about it. We've done it now for, with this morning's announcement, 44 consecutive years in a row. So there's no -- essentially no other public company, maybe other than CU, that has done it as long as Fortis. No banks, no other utilities. And now we've extended that guidance of 6% on average annual dividend growth out to 2022. It should give you a strong sense of how confident we are in our business. And we're coming -- we're doing that off a really conservative payout ratio. Most of our peers in Canada are in the 75% to 80%, some even higher on payout ratios. We're at 65%. And because, mainly, we target our U.S. companies, our U.S. peers, the investor-owned utility universe in America as our peer group. That may be unwise for us being based in Canada, domiciled in Canada, but that's where our peer group is targeted. And I would say the average payout ratio is around 65-or-so percent for that group. It's creeping up a little bit. But -- so we got lots of flexibility in our payout ratio, good Capex plan and that's why we're now extending that guidance another year.

In terms of returns, it's -- we had good 5 years, delivering 10% total shareholder return on average for the last 5 years. I take that all day long, clearly, when you look at the quality of the business, the low-risk nature of putting your dollars to work in Fortis, we can deliver 10% return on average into the future. Clearly, that is -- would be remarkable. I hope we can achieve that.

So let's now start looking at our outlook for the next 5 years. So our Capex budget has been increased for the 5-year period to $14.5 billion from $13 billion. I mentioned last year, we were starting -- after ITC, we were really going to start to turn inward and look at our corporation and make sure that we're investing appropriately in all of our businesses across our group of companies. That the acquisition, sort of, spree that we were on, moving into United States, that was coming to an end. And now, we really we're focused on organic growth. And we needed to fill in those outer years in that declining Capex curve that's typical in utility businesses. Usually, you have the first couple of years. You're running at a certain rate, let's say, ours is $3 billion or so. And then last year, we were declining in the other years to like $2.3 billion, because the visibility of those projects weren't quite there, the planning wasn't well enough along. And what was interesting, as evidence suggested, every time we got to those years, we actually were spending higher capital. So what we focused on is really trying to identify projects earlier in the cycle and start building them into our 5-year plan. And that's what has allowed us this year now to increase our 5-year outlook by $1.5 billion. I think there is still more to do there. No pressure, team. But I think there's still some more upside. There's a lot happening in our sector. The entire technology area, grid resiliency, cleaner energy, there's so many exciting things happening, and Fortis' businesses are no different than the rest of the utility business in North America. And I do believe we can grow this business in that 5% to 6% on a consistent basis over time.

So right now, what this translates into, the $14.5 billion, is the next 3 years, our rate base is going to grow by over 5% a year. Over the longer period, it's 4.5%. But remember, I said, we still got work to do on identifying more opportunities, and we're not even including the developmental projects that we're working on at this point in time.

So where did it come from? Big chunks came from FortisBC and UNS. So about $1.2 billion from those organizations. That's pretty I guess, you would expect that, because these are 2 of the larger organizations that we own. ITC clearly, their capital budget is consistent with what we were shown when we bought the company. At this point in time, we haven't increased their overall capital. Clearly working on a bunch of exciting things there, which we'll dig into as the day progresses. But right now, they're running at about $3.6 billion, and that was consistent with last year's numbers.

So let's talk a little bit about a couple of things in each of these businesses that are contributing to the capital increase. So in BC so just a little bit of perspective on our BC business. We supply gas to just about all the users in British Columbia. So we have over 1 million gas customers in that province. And it has a very large pipeline network, both distribution and transmission. And that pipeline network needs to be constantly invested in. And we've identified projects that we'll have to do to ensure the safety and integrity of that pipeline network. There's a lot happening in North America on the gas side. I'm sure many in this room are familiar with it. A lot of gas utilities in America are really focusing on upgrading their gas pipelines, following some difficult circumstances in California and in New York. We are no different. We have to invest in this very large pipeline network that we own in British Columbia. And I would say that this is a project that will continue beyond our 5-year plan, but there are some significant dollars now in the plan related to this pipeline upgrade that we're going to do at our FortisBC business.

We have included the Eagle Mountain-Woodfibre Project. This is about $350 million. It's not $600 million that we had been talking about in the past. This is a pipeline to connect up a small scale LNG export terminal. The only project that is going ahead in British Columbia in the LNG space at this point in time, other than what we're doing ourselves at the Tilbury plant, which we're obviously commissioning our facility there at this point. The reason it's down from $600 million to $350 million is that the proponent who's building that plant, the customer that we're trying to serve, because that's what we're doing here, we're actually supplying gas to that customer, is contributing to our project, providing a contribution in aid of construction of about $250 million. All, in their view, is helping them really get to a point where their cost of gas that they can present to the Asian market is an attractive number for them. And this project has now received environmental approvals, it has cleared the NEB export process, it has had excellent dialogue with First Nations. And in our assessment, it was time to include it in our forecast: $350 million on $14.5 billion.

In Arizona, at UNS, again, I mentioned very exciting things happening. The economy is picking up in Arizona, lots of new jobs being created in Tucson. Sales are up, which is not something we've been able to say for a long time. We own a large utility there, and it's a vertically integrated utility. So it has everything: distribution, transmission and generation. And I would tell you the push in Arizona is really to cleaner energy over time. And cleaner energy means more solar, more natural gas. And Arizona has been one of the, I think, great jurisdictions in North America that have figured this out that you need to be better every year, but do it in a way that controls the impact on your customer rates and allowing customer rates to be economic, to be a part of what attracts businesses that come to your jurisdiction. Never really pushing them too quickly, too fast, and Arizona has done that really, really well. And our company there has been part of that with David Hutchens and his team. We've identified a couple of projects though that will help us along these lines. Flexible generation, installing some reciprocating engines near Tucson that on our old coal plant site, the Sundt site, which is you can see it from our offices in downtown Tucson. This has really provided ramping and peaking requirements to help us facilitate really the renewable energy that's on the grid. And I think that's the subtle change in approach for many utilities is how do we actually facilitate more renewable energy to come onto the grid. And renewable solar in Arizona is priced pretty attractively. Recently, we bought solar power for $0.03 a kilowatt hour under our NextEra long-term PPA in that jurisdiction. So facilitating as much of this as you can while maintaining a good, reliable system is important. So this project is about $200 million, and we'll get started on that pretty soon.

The other is Gila River Unit 4. Gila River is a plant 2,000 megawatts -- 2,200 megawatts, I think, of gas-fired generation, 4 units. We already own one of those units, and it's spread between our Tucson Electric franchise and our UNS Electric franchise in Arizona. Salt River Project's, big utility in Arizona just announced this past week, they're buying 2 other units at that site, and these are very attractively priced units. Probably the cheapest gas-fired plants ever bought in America, and they're good plants. We've entered into a PPA to buy the output from one of those units, and we have an option to buy that unit a couple of years from now. So we're building in to our forecast at this point in time, our 5-year plan that we would execute on that option in a couple of years. And that would fit our portfolio diversification strategy as we diversify away from coal-fired generation, especially our jointly owned plants in Arizona and backstop that with gas-fired generation and more renewables. So again, some exciting things happening in Arizona, and I think there's more to come there, as we focus on grid resiliency and hardening and technology in our utility there.

So I'm getting near the end of my presentation. Amazingly, I'm on time. I want to spend a little time though on environmental matters. We get targeted from time to time, like many utilities, on our initiatives to get better, to deliver cleaner energy and we've been struggling for a little while communicating to shareholders that we're primarily a transmission-distribution business. We own very little generation. And it doesn't seem to matter. It doesn't seem to matter. We're going to keep talking about that, that way though. Our business model, our asset mix really is not what attracts most concern, like if you own massive amount of coal generation, for example, that's not what you get with Fortis. So again, 91% of our business is poles and wires and pipelines that transmit energy, electricity. We don't -- in many cases, we don't even own the electrons going through our line. We get paid a fixed fee for moving it down our lines. So increasingly, our communication will focus in this area. That being said, we do have this generation asset group that's about 9% of our mix here. Some of that is hydroelectric based. We own a large power plant in British Columbia, the Waneta Expansion plant. So that's clean energy. One of the better pieces of infrastructure has been built in Canada in the last 10 years. And so we'll carve that off. So it leaves us with 6% of our assets that are in the, I'll call it, thermal generation. And most of that is concentrated in Arizona. We have a large coal-fired plant called Springerville, which is a baseload plant in our utility there. It's a good plant. It's one of the sort of last plants built, I would say. So from a technology perspective, it's good; from an environmental perspective, it's good. It should run to the end of its useful life, creates very cheap power for our customers in the state. That's where our attention is focused, is on making sure that, that asset can run well to the end of its useful life. But that being said, we are getting better in Arizona. The amount of kilowatt hours that are going to be coming from coal-fired generation is declining over time, and we're surpassing all the rules and regulations in that state for renewable power. We are expected to run well ahead of the targets in terms of adopting more renewable power in the jurisdiction. So I feel very confident over time, we'll continue to get better every year in Arizona as we serve our customers in that state. But always, always with a focus on what the impact on our customers rates are going to be and trying to mitigate what they are over time. And only allowing sort of minimal increases in rates as we move away from sort of thermal-based kilowatt hours.

So opportunities. Jim Laurito is coming up next. He's going to talk much more detail on some of the opportunities that we have that are not in the plan. And this chart, it's in your book, just focuses in some of those areas. I'm very confident we're going to land some of this stuff. Some exciting things are happening in our company. Even in some of the slower growing utilities now, we're starting to see opportunities to invest in grid modernization, grid resiliency, and then we have some bigger projects like our transmission project here in Ontario. We have our ITC, the Erie Connector that we continue to make progress on. And we also have LNG opportunities, further LNG opportunities in British Colombia. We're actually sitting on an approval for another $400 million expansion to our Tilbury site that we haven't gone forward with yet. But as we think about converting shipping to marine, from marine bunkering -- sorry marine diesel to LNG, for example, there's some opportunities there that we think that we could actually invest further in our Tilbury site at some point here and actually grow that site from where it is today. So there are some real opportunities, not in our $14.5 billion at this point that we continue to work on. I'm very optimistic that, over time, we'll be able to add to our overall capital plan.

So with that, I'm going to switch over to Jim Laurito, who heads up our business development. Jim's got incredible experience in running utilities in America. He's been doing a great job for us now, sort of coordinating our overall business development efforts across the group. So with that, Mr. Laurito, yours.

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**James P. Laurito** - *Fortis Inc. - EVP Business Development*

Great job, Barry. Thanks, Barry, and good morning, everyone. So we're going to change it up a little bit this year from previous Investor Days, and I'm going to go a little deeper beyond the numbers to look at some trends in our business. Because we think that the impact of these trends help to connect the dots around our investment potential that Barry just spoke about on that map slide. And I'll promise to try not to bore you too much with a lot of industry jargon or a long stream of acronyms as we're prone to do in this business from time to time, as utility speak. But Barry talked about our large and diverse utility portfolio and our uniquely effective business model and compelling investment thesis. So now I'm going to take a deeper dive into these industry trends, how they create significant investment opportunities for Fortis and I'm also going to review some near- and long-term opportunities on the horizon. And if I do my job correctly, when I'm done, you'll all be as highly confident as we are in our ability to add sustainable growth over and above our base plan. And if I'm not, well, I don't know if we want to go there. But here we go.

So the trends that our industry faces are well documented. But the difference for us is that where others might see these trends as tremendous risk, creating the so-called death spiral for utilities, we see them as significant opportunity and driver of investment due to the geographic and regulatory diversity of our family of companies. And by far, the most prominent is the move to cleaner energy that Barry was just speaking about. With or without the clean power plant, we believe the shift to cleaner energy sources will continue, because this shift is primarily being driven by economics, not by policy. The development of abundant economical shale gas has forever changed the energy source landscape. Displacing coal and nuclear is the most economical baseload generation fuel, while solar and wind resources become a larger part of the generation mix. And you need only look at this map to see that Fortis is well positioned to capitalize on this shift to clean energy. At our Tucson Electric Power utility in Arizona where solar is plentiful, we're shifting our generation mix from coal to cleaner natural gas, reducing the coal component from 69% today to 38% by 2032. Our coal fleet is being replaced by modern, efficient natural gas generation and fast ramping gas reciprocating engines to improve our environmental footprint and support the increasing amounts of solar generation. And TEP is working its way toward an energy mix that includes 30% of renewables by 2030, and that's well ahead of the Arizona State renewable energy goal. And TEP is a leader in building solar as well at the utility scale level as part of their regulated rate-based investments.

We're also developing solar assets in our Caribbean utilities, and see a future there where solar will replace existing diesel fuel generation resources. And in the Midwest, in the heart of wind alley, our ITC subsidiary is interconnecting wind generation and building the transmission backbone necessary to deliver rural wind resources to large load centers. And in Canada, as you can see where hydro is plentiful, we'll continue to seek opportunistic investment, such as our previous effort to acquire the Teck Waneta Dam, explore cross-border transmission opportunities to deliver clean energy and pursue government-owned utility privatization efforts. So whether it's solar, wind or hydro, Fortis is well positioned across North America to invest for success in clean energy.

A relatively new trend in our industry is innovative technology. Now I don't have to tell you all, utilities have not exactly been perceived as the most entrepreneurial risk-taking crowd, and neither are our regulators, by the way. But we're changing this paradigm in a couple of ways. First, in New York, at Central Hudson. In response to the Reforming the Energy Vision or REV initiative, which is incentivizing the deployment of distributed energy resources in the distribution grid, we're making significant investments to automate the grid and make it more robust. Looking to a future of two-way power flow, we're modernizing our distribution field assets and operational technology systems to accommodate this shift. This grid mod effort is essential as we look to a future of seamlessly integrating new distributed resources, including rooftop solar, electric vehicles, battery energy storage and smart appliances to provide a platform to individualized energy services for customers. And unlike Arizona, regulatory barriers in New York prevent us from owning solar generation. So our investments there come from upgrading the grid and interconnecting thousands of customer-owned solar systems, highlighting the advantage of Fortis' diversity of investment opportunities. We build solar in Arizona; we connect it in New York. And to date, we've interconnected over 70 megawatts of solar in New York State, with another 170 megawatts in the queue.

Innovation is occurring at the Fortis Inc. level as well through our investment in Energy Impact Partners LP. EIP is a $500 billion investment fund comprised of progressive and complimentary energy utility partners, focusing on investments in emerging technology companies. EIP's team pioneered this concept successfully at GE, and it's unique in that they collaborate with utilities to identify areas of strategic importance. EIP's deal experts then source the transactions with the utilities jointly vetting the opportunities. EIP acts as a surrogate to traditional R&D activities as the potential as utilities benefit from obtaining insights on emerging technology companies, leading to potential investment. This also provides our technical resources exposure to companies they otherwise wouldn't see, leading to application of their products in our utility businesses. This is particularly beneficial to us at Fortis with our decentralized business model, putting us on the cutting edge of technology in our sector in the most efficient manner. And as you see on this slide, to date, we've invested in 12 different energy technology companies in the areas of cybersecurity, distribution automation, micro-grids, energy storage, smart city lighting control systems, home intelligence, customer engagement software and electric vehicle charging. And you know the rapid penetration of electric vehicles is going to lead to higher demand for electricity. In fact, it's currently the fastest-growing aspect of electricity demand at a compound annual growth rate of 2.4%. And on a combined basis, we and our utility partners have invested almost $100 million in EIP's fund companies, with additional investments on the horizon.

And it should come as no surprise that cybersecurity has emerged as a top priority for all utilities. And coincidentally, October happens to be Cybersecurity Awareness Month across the U.S. and Canada. Little trivia there, bet you didn't know that. With the increasing number of high-profile breaches in various industries and the essential service we provide, protection of the grid is of paramount importance. And Fortis is devoting significant resources and investments in this area. We recently appointed a CIO in our head office, Phonse Delaney, who is here with us today, who is overseeing our efforts, and tells us he has everything under control. But we're really fortunate that ITC has become an industry leader in this area, in both cyber and physical security. They're leaders in the NERC critical infrastructure compliance area and they implement the latest technologies to monitor threats 24/7, 365 in their cybersecurity operating center. ITC utilizes the Cybersecurity Capability Maturity Model, or C2M2, goes one of those acronyms again. It's a regimented security framework endorsed by DOE and DHS to systematically build defenses against cyber intrusions. Based upon ITC's core competence in this area, we're rolling out the C2M2 model to our other operating subsidiaries as a best practice.

So while we believe we're on top of this cyber risk, our work here is never done. And the vigilance required to maintain focus on this critical area will drive significant investment, well into the future in all of our subsidiaries. It's supported by our regulators and it's expected by our customers.

And speaking of customers. The next trend is changing customer expectations. And it's also driving increased investment. Gone are the days of just keeping the lights on. Great days they were, but they're history. Delivery of safe, affordable and reliable energy is now table stakes. Customers are demanding more. They're looking for the 3Cs: clean, communication and control. They want to be more than just an address and a meter point. The iPhone the invention of the iPhone has changed customer dynamics from no demands to on-demand. And in response, we're increasing our investments and efforts in customer engagement activities. All of our utilities make extensive use of social media as a daily communication tool, and they use texting alerts in conjunction with outage management activities. At Central Hudson, we've even implemented a web portal that provides customized energy information for every customer around consumption patterns, educational information and tips to reduce their energy usage. For those interested in deeper engagement, we offer a time of use pricing feature as well, which includes a smart meter. The web portal also offers a click through to an Amazon-like marketplace, where customers can purchase products, services and receive rebates online and in real time. These types of services are just the tip of the iceberg as we continue to strive to become a value-added energy advisor to our customers.

Grid resiliency is a current trend as well, and it's closely tied to grid mod and physical security. As the recent hurricanes have shown and as you've seen in the video, electricity makes all other things possible for quality of life and well-being, whether it's extreme wind and ice in our home province of Newfoundland, extreme heat in Arizona or hurricanes in the Caribbean, the hardening of the grid is a top priority for us. In fact, almost 55%, 55% of our annual base capital plan is dedicated to the replacement and upgrade of poles, conductors, transformers, breakers and other physical assets in the electric system. And on the gas side, a substantial amount of investment is dedicated to the replacement of leak-prone pipe, driven by age and/or condition. And this replacement and strengthening cycle is a core part of our ability to provide safe and reliable service.

And finally, as we wrap up trends, a word about industry consolidation. Over the past 20 years, as you know, the number of investor-owned utilities has shrunk from over 100 to now appropriately 40, and if history is any guide, this trend will continue, albeit, we believe, at a slower pace, just due to the law of numbers. With our unique business model, however, Fortis has capitalized on this consolidation trend in the past, and we are well positioned to do so over the long term.

So as we wrap up and look at all these trends on this slide that others may see as risk, we, at Fortis, see opportunity due to our diverse North American footprint.

So now let's move from trends to our investment strategy. Our formula for success beyond the base plan as we like to call it, and it starts as you heard Barry stress, with maximizing our robust base capital expenditure plans at our subs. These rate-based investments are augmented by new major projects, a couple of which I will review, and which are incremental to the base plan. And longer term, we'll continue to leverage our diverse platform for opportunities that are proximate to our existing subsidiaries, maximizing our local relationships and knowledge base to create opportunities for ourselves. And the combination of all 3 of these investment areas will support our average annual dividend target of 6%. So this target chart shows how industry trends and our diverse platform creates focused areas of growth for us over the near and long-term. At the core, obviously, is our existing Capex investment Barry discussed earlier. In the near term, we're really focused on a couple of electric transmission projects. One, in Northern Ontario and cross-border U.S. Canadian projects, both of which I'll review in greater detail. We also see significant potential in the area of LNG, specifically at our FortisBC subsidiary, where we're completing our current project at our expandable Tilbury site. And our longer-term focus will be on continued grid mod investments at all of our subsidiaries, utility scale solar buildout and some potential gas storage that we're looking at in Arizona and further transmission investments to interconnect wind and other generation resources as well as investigate the deployment of large grid scale storage to support the intermittency of renewable generation.

Now a little bit about our approach to development projects. We tend to stay very disciplined, ensuring that our investments are appropriately accretive to earnings and are at a minimum neutral to our existing credit profile. We prefer regulated investments in T&D, but if in the unregulated space, we only look for long-term contracted energy assets that exhibit a utility-like risk profile and produce those same stable and predictable cash flows. And to be clear, we don't pursue pure merchant investments.

And finally, we find ourselves most successful where we're investing in or near our existing utility service territories. So this is a slide that Barry flashed up near the end of his presentation, and it helps us take a look at our growth opportunities beyond the base plan. And I can tell you, as a former Fortis subsidiary CEO sitting where these guys are today, I can validate that Barry challenges our CEOs to find creative ways to grow their businesses outside of the base plan. You guys know when the phone rings, it's always from Barry, it's about how are your growth projects doing. It's not how is your SAIDI, CAIFI numbers. It's all about growth. The evidence of this can be seen on the map, as most of our subsidiaries are creating growth opportunities all across our vast North American footprint. And so now, we're going to take a look at a couple of these projects in more detail.

We have been developing 2 very promising electric transmission projects: the Wataynikaneyap Power Project or Watay Project, as we call it in FortisOntario's region; and the Lake Erie Connector, developed by ITC. We've made substantial progress on both projects, and to use a football metaphor, we'd say that these projects are in the red zone, inside the 20 and inching closer to the goal line. And again, to emphasize, both are over and above our base plan.

The Watay Project is an unprecedented partnership between FortisOntario and 22 First Nations to build approximately 1,800 kilometers of new transmission line up into the extreme Northern Ontario region to connect these 22 First Nation communities to the grid for the very first time. This vital interconnection will replace existing diesel fuel generation, providing safe and reliable service to these remote communities. And if you are, at all, familiar with this region, you will agree that this project is much more than just a transmission line. It's about bringing a lifeline to the Northern First Nations communities. This $1.4 billion project will be a regulated rate base project for FortisOntario, and we're very proud to partner with the First Nations in this effort with a 49% stake.

ITC's Lake Erie Connector project is 1,000-megawatt HVDC bidirectional cross-border transmission line that will run from southwest of Toronto, in Nanticoke Ontario, under Lake Erie to a terminal point Northeast of Erie, PA. This $1 billion project is a great example of ITC deploying its development expertise and will be a long-term contracted energy asset, where we'll enter into offtake agreements with investment-grade shippers on the line. So on a combined basis, these 2 projects represent about $2.5 billion of incremental investment above our base plan. And so now, I know you've been wondering what the name Wataynikaneyap means. And so to clear up that mystery, it means the line that brings light. And to show just how bright that light will shine, here's a short video about the project.

(Video)

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**James P. Laurito** - *Fortis Inc. - EVP Business Development*

Gary Smith and I have had the pleasure of working with Scott Hawkes and his team on this project, and I can tell you, Margaret is a very incredible strong-willed leader and it's going to be a terrific project. And to me, it's a powerful reminder that the work we do every day is much more than just about delivering electrons, it's about helping people improve their quality of life. We've achieved a number of substantial milestones this past year on the project, including approval from the OEB of the establishment of a deferral account to recover our development costs. And in addition, the federal government recently announced funding of up to $60 million for an initial piece of the project to connect the Pikangikum First Nation to the grid. The scope of that project includes 117 kilometer line from Red Lake to Pikangikum and work on the project is already underway, with completion scheduled by the end of 2018.

So looking ahead to the major part of the project, we're progressing on the environmental assessments, and we're working with the federal and provincial governments regarding a cost-sharing agreement. As Scott mentioned in the video, by eliminating costly diesel fuel, this project is going to offer over $1 billion of savings on a net present value basis over the project life, making this a true win-win for all involved.

We're very proud of our efforts here, and I think the project is a great example of our ability to apply our core transmission expertise with ITC providing some technical assistance and FortisOntario's strong relationship and partnering skills with the First Nations to solve a technical and social challenge.

So now for a bit more detail on the Lake Erie Connector. The project would provide the first direct interconnection between Ontario's IESO and the U.S. PJM markets. The current method of moving generation between the 2 regions is inefficient, as it either has to travel around the east side of Lake Erie through the New York ISO into PJM or around the west side of Lake Erie through MISO into PJM, which is affectionately called the Lake Erie loop flow, a name only an engineer could love, right? But this situation creates congestion, extra cost and overall efficiency. Both Ontario and PJM regions would see benefits, with Ontario able to export surplus clean energy and PJM accessing a new market with different resource mix to help achieve environmental goals and offset coal plant retirements. In fact, in approving the project, the National Energy Board of Canada estimated the annual benefits of the project at approximately $200 million. And an additional benefit is the project has minimal visual and environmental impact due to its underwater and underground routing.

So with the Canadian NEB approval and the U.S. DOE Presidential Permit in hand, we only need one more U.S. Army Corps of Engineers permit, which is imminent to complete the permitting process. And from that point forward, we need only to complete commercial negotiations with potential offtakers, which are currently in progress. So we're really excited and optimistic about both the Watay and Lake Erie projects, and we look forward to finalizing both of these soon.

So now let's shift to a longer-term view. Now that we've achieved scale at Fortis, we're very bullish about our ability to leverage that scale and grow over the long term. And we're most bullish on the ability to increase our investments and transmission at ITC. No pressure, Linda. The transmission grid will require substantial investment long into the future. Published studies have estimated that up to $160 billion of transmission will need to be invested in replacements, upgrades, hardening and modernizing by 2030. So specifically for us, we see opportunities in regulated projects that address congestion relief and interregional planning projects similar to our existing multivalue or MVP projects that assist bordering regions meeting their public policy goals. And as always, we see partnerships as a key part of developing major projects as exemplified by the Sunflower Cooperative Partnership in Kansas that ITC consummated a few years back and resulted in a major buildout.

Outside of the regulated environment, we see geographic expansion opportunities into Mexico. As you're probably aware, the Mexican government has mandated extensive infrastructure modernization across the country, estimating a need for approximately $15 billion of new transmission over the next 20 years. We're optimistic about the long-term investment climate in Mexico given some recent government and regulatory reforms that have been implemented. And ITC is pursuing the initial phase of this buildout, which will be about 600 miles of new HVDC transmission as part of a partnership. While the details of the first RFP have yet to be finalized, we look forward to participating.

And we also see opportunity in interconnecting generation sources of all types, whether renewable or other fuels. Oftentimes, generators are not equipped to deal with the rigorous NERC compliance requirements involved with transmission build and that's where we come in to add value to make their project deliverable. And finally, we're looking forward innovatively into the area of energy storage, both at grid scale through use of traditional pump storage technology and smaller scale through use of batteries. Again, while some see storage as the Holy Grail threat to utilities, we see it as an investment opportunity that must be integrated with robust transmission to form the grid of the future.

At UNS in Arizona, we see significant long-term investment opportunities as well in the areas of renewable generation, grid mod and grid resiliency. With a plentiful solar resource, we see a huge market opportunity in utility scale solar. The amount of utility scale solar capacity in North America is estimated to triple from its existing level by 2025 and increase 10x over current levels by 2040. And UNS is in prime position to capitalize on this trend in 2 ways: First, by building and owning utility scale solar systems in rate base; and second, by converting existing PPAs into asset ownership as the ITCs and PTCs expire. Beyond the base plan period, it's anticipated that UNS could build almost 200 megawatts of utility scale solar, creating up to approximately $300 million of additional investment. To support the continued buildout of solar and support two-way power flow, the distribution grid will be further automated to manage these distributed resources through investment in advanced metering infrastructure, smart inverters, advanced sensing, voltage optimization technologies and integrating EV charging infrastructure. Resiliency carries somewhat of a different meaning at UNS versus our other utilities. While most others are focused on hardening due to winter storms and hurricanes, UNS's typical weather risk is created by intense and prolonged heat, creating a need to upgrade systems and substations. When combined with grid mod efforts, a minimum of approximately $200 million of investment will be required beyond the current 5-year plan period. And finally, we have significant long-term investment opportunities at FortisBC in the area of LNG. We're in the midst of completing our Tilbury 1A project, with a very favorable site location that has ocean access and scalability to hold 2 additional LNG tanks. We're well-positioned for growth in the future. FortisBC already has government approval for an additional $400 million regulated liquefaction expansion project, which would be Tilbury 1B, and would serve marine bunkering transportation in remote communities. And looking forward beyond that to the future, we're actively pursuing new markets, both regionally and internationally that would be long-term contracted, with strong creditworthy counterparties, and we're optimistic about our chances to make a major project happen.

And so to close, we're excited about our base plan and maximizing its growth, but equally bullish that we can add somewhere between $1 billion and $4 billion of incremental investment on top of that plan by leveraging our large scale and diverse geography to capitalize on new projects.

That's it for me, and now I'm going to turn it over to Karl, who will review our financial outlook.

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

Thanks, Jim. Good morning, everybody. You're a good-looking group. Getting better every year, just like Fortis. I'm kind of jealous, I don't have any videos. So I'll tell you that right now. I thought about including one on the new auditors report to be implemented next year. We viewed it once. Everybody in the room fell asleep, so we canned the videos.

So my job is to take all the rubber that Barry and Jim laid out, and show you where it meets the road. And let's get started.

Before I get into the plan, I just wanted to make a few comments about 2017, which is turning out to be another really good year for Fortis and our shareholders. We will be releasing our third quarter results on November 3. So I encourage you to put that date on your calendars. And just some highlights with respect to 2017, which has been an exceptionally busy year for us, but as I mentioned, very successful at the same time. Barry in his comments indicated that we announced a dividend increase this morning, 6.25%, which brings our annualized dividend to $1.70. This is our 44th consecutive annual dividend increase. We are very clearly focused on organic growth going forward and we'll continue to beat that drum. As long as you will listen to it, from my perspective, it's a very low risk way to grow and very efficient from a capital perspective as well. We are on track to meet our plan Capex spend this year. We plan on spending $3.1 billion, and at this late in the year, it looks like we will meet that target. I highlight UNS Energy Corporation here and the outcome of the first rate case, which we received earlier this year. And I note it because it is the first regulatory outcome in that jurisdiction post our acquisition of UNS. And I will talk a little bit more about that later in the presentation.

In terms of our rate base, the rate base midyear rate base for 2017, we're looking at approximately $25.4 billion. Very well diversified, as you can see it from the pie chart, with almost 30% now constituted by ITC and the FERC-regulated assets there. Other regulated U.S. would include Central Hudson and UNS, and we're 24% to 25% there, and the remaining block regulated Canadian and Caribbean, I would remind you, there's 5 companies in that pie. In terms of ITC, and Barry spoke about this, and I won't talk too much about it, but the integration of this is really going extremely well. We're on track. We would say the integration is probably complete. And the accretion that we anticipated when we announced this acquisition last year is intact, and we're seeing what we expected to see in terms of accretion.

Moving on then into our plan highlights for 2018-2022. You've already heard that we anticipate we'll spend $14.5 billion in our base capital program. That averages to $2.9 billion annually. The most important thing to take away from our plan when we talk about this is that it's characterized by lots and lots of projects. There are very few small or large major complicated projects in our plan, and I will talk about that a little bit more further on. But as a consequence, our plan is very highly executable and it is low risk. Jim just talked about some other opportunities beyond our base plan that we're really getting more excited about with each day. And this plan should deliver a rate base by 2022 of approximately $32 billion. The compound annual growth rate for the next 3 years in terms of our rate base growth is in excess of 5% at 5.2% and the 5-year rate base compound growth rate is currently 4.5%. But again, that's a very conservative base plan that we include there. Our dividend strategy is very explicit and very simple. We plan on growing the dividend on average by 6% per year. In terms of liquidity and the ability to finance this plan, our unused credit facilities during the 5-year period will average over $3 billion. That gives us lots of flexibility. We average over that 5-year period of approximately $775 million in maturing debt, which based on the size of our organization, we view it's quite manageable. Importantly, we don't require any discrete issuance of common equity to finance this plan. This plan will be financed with cash generated internally. We'll raise debt at the operating company level, and the only common equity that's required to finance this plan is through our dividend reinvestment plan. And currently, we are raising somewhere around $250 million a year through that plan.

In terms of the FX, what we have assumed here is $1.28 for the Canadian dollar compared to the U.S. dollar. We based on the spot rate today, that may sound a little bit high. However, you have also noticed that there's been a tremendous amount of fluctuation in the U.S. dollar over the U.S. dollar exchange rate over the last several months. We aren't terribly sensitive to fluctuations in the exchange rate. Currently, a $0.05 change in the exchange rate would translate into about a $0.07 impact on our earnings per share, and I'll talk a little bit more about that later on as well.

In terms of the next couple of slides, I've just sliced up our capital investments to demonstrate the nature of those investments; the big buckets that you will find our capital spend in. And 3 main buckets that we talk about, sustaining capital, this is really the bread and butter of running a utility. It's replacing retiring assets, it's adding to the integrity and the strength of the grids and so on. A lot of that is focused on resilience, as Jim and Barry would've talked about. And also modernizing the grid, which we see as a big opportunity for us. That's the biggest bucket, over 50%. This is regulatorily very acceptable from our perspective, and we don't anticipate that there would be much difficulty in putting this capital to work. In terms of growth capital in there, we're talking about mainly connecting new customers to the grid and addressing some of those changing expectations that Jim talked about as well. And that's about 1/3 of our capital plan. And the other bucket, which is about 13% is made up of buying new trucks, information technology, operations integrity, those types of things. And they're supportive of the broader spend in terms of the other 2 buckets that I talked about.

Looking at it from a perspective of the nature of the projects themselves, I talked about how there's a multitude of smaller projects in our capital plan, and that constitutes about 86% of our overall spend. What we call the major capital projects, and we define that now as projects that would be greater than $150 million in size, and I will show another slide with respect to this. But there are only 10 projects in this entire $14.5 billion capital plan that would be characterized as a major project or $150 million or so. There's less than $2 billion in total spending over the 5 years that would be characterized as major projects.

In terms of the pie chart on the right, just wanted to give you some sense of geography as to where we're spending our money. And similar to the overall size of our business now, 55% of our capital plan is dedicated to spending in the United States, 41% would be spent here in Canada and the remainder in the Caribbean. What's interesting to me when I look at this is that the 55% that we spend in the U.S. attracts better returns. And you've heard Barry talk about FERC. Also, the other state-regulated utilities tend to have higher returns in the U.S. than they do in Canada. The other thing this demonstrates to me is how nicely diversified we are across geographic lines.

In terms of the capital plan and the major projects, we've identified for you in this slide those capital projects, where they are, the size and so on. What I will point out to you is that first line, the ITC multivalue regional projects, the MVP projects, there's actually 4 in that first line. So again, that's how you get to the 10, I talked about. But it also suggests that there aren't any really huge projects. Barry mentioned earlier that we've included Woodfibre in our base capital plan. So that would be new to this list compared to what you would've seen in the past.

And in this slide, I'll provide more detail about which companies are actually spending the money. The top left-hand corner is just a lot of detail about 2018. I will draw your attention to the pie chart again. You're starting to get the impression I like pie charts. The only thing I like better than pie charts, by the way, is waterfall charts, and I can't wait for our earnings release to give you one of those.

So the pie chart, again, it's very similar to what you would have seen in the 2017 breakdown. Over 50% of the spending is in the U.S., as I mentioned, earlier, and almost 30% is spending at ITC in that FERC jurisdiction. On the bottom, we lay out, and again, major buckets, the entire 5 years. And just I'll do some quick math for you here. ITC over the course of the 5-year plan, we'll see about 25% of the entire spend. The other 2 utilities in the U.S. being Central Hudson and UNS will account for about 30% of the entire spend. And the remaining 44% to 45% will be spent in Canada and the Caribbean.

The other thing I want to point out here is that only 1% of our entire capital plan for the 5 years is unregulated in nature, and that would be small amounts of spending in our unregulated generation plants and also Aitken Creek, our gas storage facility in British Columbia. But think for all intents and purposes that all our capital plan is regulated spend.

Just wanted to spend a minute or two on some regulatory outcomes. And I mentioned earlier about UNS and the fact that we have received our first rate case outcome. It was a settlement in Arizona post our acquisition there. And the first regulatory application in any new jurisdiction is always one that we're very focused on. Not concerned. I wouldn't say concerned necessarily, but it's obviously, the most important one that we'll ever conduct in that jurisdiction. And this slide helps you understand the outcome. We put the previous one 2012 rate case there as well just for comparable purposes. But I won't speak to that. A couple of things I want to point out here. First of all, if you look at the capital structure outcome, 50% debt and 50% equity, and this is a very important point because when we acquired that business, there was about 43% to 44% equity. We were encouraged at that time to inject further equity in that business, which we did immediately, and it's noteworthy that the regulator allowed us to earn on every cent of that extra equity that we put in that business. That's a very important outcome. The other thing that's noteworthy here is practically all the rate base that we applied for was awarded. And I'll talk more about that in the next slide.

UNS and Arizona is subject to historical test year. It's the only one of our organizations that applies to. So for a period of time, we're always it's not known as to whether we will recoup all the capital that we're spending in that company. But as this suggests, practically all the capital we spent between the rate cases was included in ultimate rates.

The regulator rate of return that we were awarded was 9.75%. We had asked for 10.35%. But that 9.75% is a very satisfactory outcome from our perspective, and as I pointed out earlier, higher than the returns that we would attract and earn here in Canada.

Now before all you analytical types here get too excited about the slide, it's an illustrated slide only, but I want to demonstrate or help you understand the pattern of earnings at UNS because it is different than our other utilities, and it does -- the regulatory lag in Arizona does have an impact on our earnings trajectory. So illustrative only, nothing more to this, but it should be helpful in depicting the pattern of earnings that I talked about.

So it's designed to show the impact of regulatory lag. What I will say is that over the long term, earnings at UNS will grow in concert with the rate base, consistent with the other utilities that we have in our portfolio. However, growth isn't linear because of the regulatory lag that I referred to. There is a sawtooth pattern to earnings at UNS. And it is, by its very nature, that way. This would be problematic if you were a stand-alone utility, I would think. Again, so sort of as well as pointing out the impact of regulatory lag, it also helps you give some understanding of the portfolio back to Fortis and the diversification of the various companies that we have in our portfolio.

So what I've done here is just arbitrarily assume that rates will be adjusted in the years 2020 and 2022. If you draw a line from the first year to the last, that earnings growth would be very similar to rate base growth. On the previous slides, I pointed out that the maybe I didn't do this, but the test year for the recent rate application was the year ended June 30, 2015. So we had rates approved to go into effect earlier this year in February. So there was, in effect, a 20-month lag between the end of that test year and the time that new rates were put into effect.

UNS, in our plan, will spend something like $700 million a year in Capex. So you think about that 20-month period, there's $1 billion or close to $1 billion in capital that we're not earning a return on. There is a catch-up effect. Earnings jump up as a consequence and then carry on. This sounds like I'm painting a negative picture for regulation in Arizona. I'm not. Our experience in Arizona has been very, very positive. As I pointed out, the amount of money we spent in capital has been included in rates. There are other regulatory mechanisms in Arizona that sort of temper the impact of this a little bit as well. We have fixed cost recovery mechanisms in Arizona, which is really, really important in a jurisdiction where sales can fluctuate. There's also a fair value increment that's awarded to the utility there as well. So on balance, and over the long term, we really like the regulation in Arizona. But we get the impression that some of the people that follow us don't completely understand the impact of this regulatory lag, and that's what this slide is intended to do.

In terms of funding our plan, we will maintain our subsidiary balance sheets consistent with approved levels. For example, I've been talking about UNS, we will maintain the equity at UNS consistent with their 50% approved level as an example. We do have ample liquidity. I referred to the unused credit lines, and I'll talk a little bit more in subsequent slides about that. For this particular plan, the debt issued over the course of the plan will be primarily at the operating company level, and there is a subsequent slide that lays that out for you as well. The only debt that we will issue at the corporate level is refinancing maturing debt. Over the course of the plan, we do see a gradual but steady improvement in our credit metrics, and those credit metrics will support the current credit ratings. We do expect to maintain our investment grade credit ratings. And as I've mentioned, there's no discrete common equity issuance required, and whatever equity is required will be provided through our Dividend Reinvestment Plan. Very straightforward, very simple.

Here's a look at our maturing debt over the foreseeable and beyond the foreseeable future. Just a couple of things I wanted to highlight here for you. Next year, you'll see $1 billion in debt issuance on the U.S. regulated line. That is primarily ITC. And I know Gretchen Holloway and her team at ITC have been preparing very ably for this. The banking syndicates are in place. There's been some hedging of interest rates already undertaken, so they're in really, really good shape to do that.

In 2021, I just wanted to highlight the on the corporate line, the fact that we'll be issuing over $1 billion in debt at the Fortis level. However, about $1 billion of that is associated with the with one tranche, the 5-year tranche of the ITC financing associated with that acquisition. But for the most part, we would consider these maturities to be very, very manageable for us. And as I mentioned, they do average $775 million a year.

In terms of our credit metrics, as I talked about, they will support our credit ratings. These are the existing credit ratings for Fortis Inc. Just a my new point on the 2 bars on the right. You'll notice that the totals aren't the same. The average going forward, there's about $5 billion in total credit available to June 30 of this year. Looked at, like $5.4 billion, but that's really just the translation of the foreign currency and different assumptions around what those rates were compared to what they will be.

And more broadly speaking, here's a good slide for you to take away. Firstly, all the utility credit ratings are in the A category. We expect it to stay that way, and this puts us in a really good stead to finance on a successful basis going forward.

In terms of hedging, and I mentioned that currently, a $0.05 change in our -- in the exchange rate between Canada and the U.S. would cause a commensurate $0.07 change in our earnings per share. Currently, we're about 1/3 of our business is -- our cash flow is naturally hedged through debt that we've issued in the United States. Most of the debt at the Fortis Inc. level is U.S. dollar-denominated. We anticipate that would be the case going forward as well. So currently about 2/3 of our cash flow is currently unhedged. Our objective is on the right-hand side, and we anticipate in the very near future that we will put in place a program of cash flow hedging associated with the cash flow we generate in the U.S. What I will say is that not all of the cash flow that we generate in the U.S. is repatriated back to Canada because as you see, we do invest very heavily in the United States. We'll do so going forward. And consequently, we do have to keep some cash there. So broadly speaking, we think about 1/3 through our cash flow hedging program that we'll implement in the very near future, the 1/3 will stay naturally hedged as it currently is, and we'll remain at 1/3 unhedged. It doesn't change dramatically the relationship between foreign currency, the exchange rates and our earnings, but it will mute it a little bit on a go-forward basis once we get to the stage. $0.05 change in the exchange rate will cause a $0.06 change in our earnings per share. What that should tell you is that we're not highly sensitive to fluctuations in the exchange rate, but we will work to try to minimize that as much as we can.

So in terms of risk and opportunities, and most of this you would have heard already today in the previous presentations, in terms of opportunities, I have listed potential rising ROEs. I'm not predicting that to be the case, but where we are, generally speaking, in the interest rate cycle, there's more anticipation of rates increasing, although I don't think there will be significant increases, but increasing. So I think it's more -- we're more likely to see upside on ROEs over the course of this plan than we are to see further downside.

I think continued low natural gas prices give us a lot of headroom to continue to invest in other infrastructure in places such as British Columbia, Arizona, for instance, that Barry talked about. And of course, there's the additional capital that Jim laid out in terms of other projects and upside to our base plan. The main risk that I would lay out for you relate -- always relate to regulatory outcomes. The most significant near term would be the MISO complaints with respect -- or in MISO, the complaints around ROE to FERC, and we'll -- we should see a decision next year with respect to that, probably in the first half of next year.

There's a lot of chatter still about the changes in government policy, particularly in the U.S., tax has sort of come back onto the front burner again.

Customer rate impacts should always be on our list even though this plan doesn't anticipate really significant rate increases. It's always an issue and always a little bit tricky to continue to invest in Capex that may contribute to slight increases in rates, and there's the foreign exchange that I've talked about already.

Focusing a bit more specifically on 2018. There are the ITC-based ROE complaints that I talked about. To give you some idea of sensitivity with respect to that, a 50 basis points change in allowed ROE for 2018 would contribute to about a $0.06 impact on earnings per share. Now when I say 2018 and changes in allowed ROE, there are really only 3 of our companies that are really -- their returns are in play, if I can use that term. ITC, obviously, through the FERC complaints. Central Hudson has filed an application in front of its regulator. So 2018, we'll know what the outcome with that particular application is, and specifically, with respect to ROE. And FortisAlberta also is in a process in Alberta that is looking at the generic ROE for that province. So those are the 3 of our utilities that may see some change in their ROE in 2018. And a 50-basis-point change for those 3 would equate to the $0.06 change.

And to give you some sense about sensitivity in the Capex, because I mentioned we're using a $1.28 assumption on foreign exchange, a -- if that were to change to $1.25, for example, a $0.03 change in the exchange rate would translate into a $200 million change in the overall size of our capital plan.

And this slide really focus on the bottom part, I think. The top part shows some recent outcomes. But more importantly, looking forward, we have the ISO -- or the MISO complaint that I talked about. And Central Hudson has filed its rate application. In New York, we're asking for an ROE of 9.5% and a capital structure that includes 50% common equity. That would be higher than what we currently enjoy there. And we'll know the outcome of that in June of 2018.

So other than that, you can see that there aren't a host of regulatory outcomes that we're exposed to in 2018. So based on what we've seen over the last number of years, we're at a fairly -- we're at a point where regulatory risk is probably lower than it has been for a while. And where the rubber meets the road is this headline: Predictable returns from highly regulated asset base. We lay out the companies there, tell you what the regulatory constructs are like. There's only one company of those on the forward-looking test year, and that's UNS, and I talked about that. 97% of our assets are regulated.

And we've also provided another split here in this slide. I've had a look at our regulated assets. 43% are electric; 38%, transmission; and the rest, gas, primarily. This year, our average allowed ROE is 9.75%. Our actual equity thickness was 48.2%. So when you look at our overall business and the way I think about it is on a risk-adjusted return basis, if you look at a utility such as ours, highly regulated, very well diversified, growing at somewhere between 5% and 6%. That investment thesis, in my mind anyway, is very persuasive.

I just wanted to leave you with this one slide that talks about our sustainable business model. And again, all the points that I just went through, but standing here today, looking at our capital plan and thinking about the opportunities to even exceed that makes us very, very excited here today.

So I'll stop there. I think the deal is we'll take some questions now. Stephanie, is that correct? Barry is going to come up and say a few words.

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

So when Karl talked about liking waterfall charts and pie charts, I thought he was actually going to say wine for the second one. So then I thought he's going to use haircuts. So as you know, Karl has got a new haircut. He actually participated in Shave For the Brave in Newfoundland raising money for juvenile cancer and raised $125,000 himself. So congratulations, Karl. And he's keeping the hairstyle, so. I think what we're going to do, Stephanie, is play the video. I'm going to come back up and conclude. So we're near the end of the presentations, and a couple of short videos now. And then I'm going to come up to conclude, and we're going to go to the question-and-answer session. So let's play the videos.

(Video)

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

And so am I, Dave. So that concludes the presentations. So hopefully, you've seen the value of our business model here today, the quality of our people and you agree with our view that the grid, the electric grid, our pipeline networks, are some of the most valuable infrastructure in today's society. We have a strong base capital plan that's growing our business nicely, allowing us to keep increasing our dividends. We have a great pipeline of opportunities. So all together, we have a very diversified utility business that is low risk of visible growth, and that's what you get when you invest in Fortis.

So thank you, and I'll bring Stephanie up, and she's going to moderate our Q&A session. Thank you very much.

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Thank you, Barry. And now we'll begin the questions-and-answer session.

Today if you have a question, please raise your hand. We do have approximately 30 minutes before lunch begins.

So I have Annette Carberry in the back as well as Angela Doyle, who will bring the microphone to you.

## QUESTIONS AND ANSWERS

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

,Andrew Kuske Credit Suisse. This is a 2-part question, and it really revolves around the organic growth that you've laid out. So the first part of the question is, if you think about the organic growth that you've got, you're effectively a very fast-moving tortoise. But do you feel you're being penalized versus some of the hares in the industry that have perhaps some outsized binary...

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

Angela, can you come -- I can't quite understand you, please.

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

Sure.

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

Okay. Can you -- turn it up, the mic, maybe?

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

Okay. The question. Can you hear that?

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

About the same, actually.

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

About the same?

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

Better now. It's better.

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

There we go. So it's a 2-part question, and the first part of the question really revolves around the organic growth. And so really, if you look at Fortis, you're a pretty fast-moving tortoise. Do you think that some of the hares in the industry that have some outsized binary projects that really provide some big deltas, do you feel you're being penalized by being very consistent on a valuation basis versus those that have outsized projects that do big deltas? And then the second part of the question really revolves around the organic. Because you've got such organic growth, does that make you very choosy on any M&A that you do in the future?

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

It's a good question. I think our biggest challenge has been convincing shareholders that we don't need to do M&A to grow the company, right? So it's not as much comparing us to other companies with big projects. It's about this view that Fortis had to buy companies to grow. And as I used the term earlier that I don't agree with that philosophy, and you can look historically and see that we've grown through M&A, but at the same time, our base business has been growing nicely as well. So I think for us, the challenge right now is to make our shareholders comfortable that we have a growth platform that can deliver consistent growth from our existing businesses. And I think once they accept that, that the valuation of our company will improve because when you compare that with the quality of the assets we're invested in, like I said, it's a pretty strong combination. We are dealing with a fundamental disconnect right now between the Canadian markets and the U.S. markets. U.S. utilities are valued much higher than Canadian utilities. We're sitting here at 60% U.S., 40% Canadian. There's no reason for this valuation gap. In fact, Fortis should still be trading at a premium to the average U.S. utility based on our quality of our asset mix. And me as CEO and my team, our goal is to get that back. That's worth probably $6 to $8 a share when you really go at it. And there is no logic whatsoever for that gap to exist. There's some fundamental structural things going on. We're not domiciled in the U.S., so we're not in the U.S. indices. So you have 25% of all U.S. utility stocks held by 3 companies: BlackRock, State Street and Vanguard. We don't have that. And in fact, we have another hand tied behind our back because not 1 of our top 25 shareholders is a Canadian pension plan because they're not investing in public equity at this point in time. They're putting their money in their own infrastructure. So the combination of those couple of factors, I think, has really helped holding back our stock at this point. And hopefully, over time, with our strategy on focusing on organic growth, low-risk growth and continued increasing our dividend, we'll get more interest in our stock. I can tell you, we are spending a tremendous amount of time talking to shareholders right now in the U.S., Canada and Europe, probably 5x more than we used to do. All about that with a goal of closing, closing that gap.

**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Next question.

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

Rob Hope, Scotiabank. Maybe taking a look at Arizona, how do you balance it being one of your largest or highest growth utilities with the historical test year? Could there be an opportunity to concentrate capital spending so that you're better able to recover the capital in a timely matter? Or could you engage the regulator longer term to alter the framework there?

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

I'd say, Rob, we're doing all the above, really. I'm bullish on Arizona, to be honest. And yes, we have the historical test year, but we knew that going in. We knew that and we bought the company. And in order for that to change, there would have to be a pretty major push by the entire sector in Arizona. We're not the largest utility in that jurisdiction. Arizona Public Service, who operates utility in Phoenix, is that. But there are mechanisms that are in place. That will continue to also improve that allowed for just what you said. When we're looking at big capital projects, having them sort of built-in as add-ons during that rate-making process. So there are some ways of mitigating it, but fundamentally, we are carrying some capital without a return for discretes period of time that create the sawtooth pattern in our earnings growth in that jurisdiction. I'd expect that, that will continue for the foreseeable future. And for me, it doesn't really detract from my willingness to invest in the jurisdiction. The economy is improving. There's -- I suppose there's a hopeful scenario that if we do get strong economic growth actually having a historical test year helps in that environment because you actually start earning more and you're not coming back in for rates. And you get to earn your allowed returns during that scenario. So we really believe the U.S. economy is going to do well in the next few years. Actually, having that regulatory compact in Arizona might turn around and be a real positive for the company.

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

All right. That's helpful. Maybe just to follow up on that, just regarding the ability to invest in Arizona. We continue to see the greening of the generation fleet as a continuing theme of growth for utilities. And we've seen some of that today as well, but could you further accelerate the adoption of solar rate base in Arizona?

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

I think the answer is yes, and that's why we're investing in things like reciprocating engines. But I've got to tell you, Arizona has gotten it right. And a lot of jurisdictions in North America have gotten it wrong. The other places have moved aggressively to renewables and have caused rates to double in some cases. We're dealing with that in Newfoundland right now. We have a big project that's going to come online that requires retail rates to double from $0.11 to $0.22. You tell me that was the right strategy for our own province. Arizona gets it right. They say, okay, we agree that cleaning up the energy that we deliver is the right thing to do, but let's do it in a methodical way over time so that we maintain economic rates in our jurisdiction. And I think our rates in Arizona are still some of the lowest in all of America. So I think, yes, there's more opportunity. The sort of Holy Grail, obviously, is to grow that part of your business while your reducing operating costs in other areas so that the rate impact to your customers is not that significant. And so that's sort of the recipe we're searching for is find ways to lower operating costs as you reinvest in renewable energy and strengthen your grid, moving operating Capex to allow you to grow your rate base, basically.

**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Question over here from Linda Ezergailis.

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

As we look at your incremental opportunities beyond the base plan, I'm wondering if you can help us understand where that incremental capital would come from to finance that. Based on your discussions with debt rating agencies and as you look forward to various potential volatility in the capital markets, how much capacity do you see your balance sheet having currently to add to your base plan? And maybe you could comment on the flip side. At what point, as your free cash flows grow, might you consider turning off your DRIP?

**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

Yes. Good question, Linda. I won't cite the number in terms of capacity, but we just went through an exercise with the Waneta acquisition, for instance, where we had some involved conversations with the credit rating agencies around how we finance that, and there was complete comfort with the agencies around that. So we do have capacity. I do believe we have capacity on the balance sheet for the right types of investments, so if they're regulated or if they're highly contracted. And broadly speaking, our approach would be to maintain the profile of the balance sheet consistent with the way it is today. So the various components that you see today, we try to keep them very close to that relationship as you currently see. In terms of the DRIP, first of all, we've just introduced it to the U.S., and we had the -- our U.S.-based investors had the first opportunity to reinvest on the September 1 dividend. But we only introduced it very shortly before that. So we didn't see much take-up of any with respect to that. So that's an unknown variable for us. We've got to see how much interest we stimulate in the U.S. in terms of dividend reinvestment. It's interesting because it's one of those situations where we're almost being too successful in terms of the Dividend Reinvestment Plan itself. So what we will do is maintain our capital efficiency. If we get to a point, and we think we'll, with the opportunities ahead of us, we'll have lots of opportunity to put in place added capital. But when we get to the stage where we're looking a little bit rich on the balance sheet, yes, we'll think then of opportunities to give that capital back to our shareholders. There's no question about that.

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

Just as a follow-up question, sorry. With respect to your financing options, how -- what's your updated thinking in terms of some of the other levers that you have chosen to pull on occasion in the past or whatnot. In terms of joint ventures, do those look attractive or less so these days? Hybrid securities in Canada, partial IPOs of your businesses as you get scale, what's the updated thinking on various scenarios?

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

Yes. Fair enough, but not much to really update, Linda, to be honest with you. I mean, as you know, you've observed us quite a number of years. We take a very simple approach to the business. And if you think about the nature of our financing, for the most part, is done at the operating company level. So we don't anticipate that there'd be any change in approach there. Yes, we're -- ITC is doing some really good things in terms of hedging, forward interest rates and things like that, but that's just playing around the edges, in my mind. Hybrid securities, we're very aware of, and we don't really see a need for them in our current plan. So I don't think we'll change that much going forward. And if nothing else, we're very adaptive when it comes to those type of things. Whatever makes sense at the time is what we're going to do. But in terms of acquisitions and -- or bolt-ons or whatever, joint ventures, from my perspective, is more strategic than it is financing. To be able to partner with a company like IEnova in Mexico, for example, I think just gives us much more chance of being successful there. So we don't really think about partnerships and joint ventures and such as a financing vehicle. But if that makes sense, we'll do it that way as well. So I'd say we'll look very much the same going forward in terms of a financing approach as we have in the past.

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

Just to add a couple of things there, Linda. Our biggest experience with partnering, really, is with ITC, with GIC. And I can tell you, that has gone really, really well. We're working well together. Great organization. They get our business. And so far, that's working out. LNG, we really were successful in expanding Tilbury to, say, bring in Japanese markets, that kind of small-scale export. My expectation is we would partner with others on that kind of projects, so I think it sort of -- it changes depending on the opportunity. Pump storage or hydro pump storage is exciting area that could lead to some significant investment to help provide storage to really help put more renewables on the grid. Likely, if you're getting into a big pump storage site, you're doing it with partners, other utilities even, to help you with that. So we're very open to those kinds of discussions.

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Great. Question over here from Robert Kwan.

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

Just -- when you're looking at your strategic initiatives, the decision to drop M&A from there, what time horizon are you thinking about as you form that strategy

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

It's not forever. Listen, we're going to -- Robert, we're going to look at -- when something presents itself that makes sense for our corporation, we're not -- as I'm saying, Newfoundland, we're not stunned, right? Clearly, what we've done is completed a major push into the United States. We've achieved scale. We need to grow this business now at a good rate that we own. And then when opportunities present down the road, down the road, we'll have to look at them. The organization will grow again at some point in time in the future, but the near term for sure is focused on organic growth.

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

And Barry, is that driven by the visibility and the opportunities that you're seeing and that visibility around the higher rate base CAGR? Or is some of it just a function of where your valuation multiple is, where the balance sheet is? And you've also mentioned wanting to -- you don't need the benefit of adverse feed anymore, but if you had something that was EPS accretive, do you want to talk about what that percent trough rate might be?

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

No. But I -- for me, at least, there's more value in growing organically then growing through acquisitions at these prices, right? Canadian utilities has got to get it in their head. We got in early, so I'm going to be a bit hypocritical on this, okay? We're in a lose-lose situation right now. The targets in the U.S. have been bid up by the Canadian utilities who want to buy them, 2 or 3 terms, probably. And we get no value from shareholders in Canada for our strategy. So we've got to get off that bandwagon. Grow your businesses over time at a good rate. We've gotten good, low-risk businesses, and stop talking about utility M&A. It's -- we've moved the entire sector. And we're done talking about it, frankly. And we all get -- we still get all the pitches all the time, but we need to let this thing settle down here. And us, we're fortunate. We've created a great portfolio of businesses that are growing nicely now. I think there's still upside to that, and that's what we're spending our time. We have some other colleagues, obviously, who want to do other things across Canada, but that's where Fortis is going to be devoting its attention.

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Ben Pham over here, please.

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

Two questions for me. First one is just so I'm absolutely clear, your dividend guidance, 6%, 4.5% rate base CAGR. Do you need additional investments to support the 6% dividend through the payout ratio flexibility there? And the second question there's lots of conversation on transmission opportunities. You had one slide out there dedicated to ITC. And I'm just curious about that disconnect with respect to your Capex refresh. There's no mention of transmission in there in terms of revisions on the transmission side.

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

The last part of your question ITC's got a big chunk of our overall budget. As I've mentioned, we've only owned the company for 1 year, so there's no incremental increase in capital. I think, in fact, we look at the vintages of the plans, it might be a couple of hundred million higher, this vintage versus last year's 5-year plan. Clearly, I -- Erie Connector would be a great project that would be a home run if we can land that one for ITC, but they're working out a lot of other things. And hopefully, in year 2 -- 1, 2, 3 years from now, we're updating you on further incremental growth for ITC. And I feel that we're in the right space with that business, especially given the regulatory construct. And Ben, I forgot the first question. What was the first question?

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

Payout ratio.

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

Oh, payout ratio. Ben, you're right on that, I guess. But we've got a lot of flexibility, right? Payout ratio is pretty conservative. I'm pretty optimistic that we can fill in the growth, get closer to that 6% level. So when I think about what utility investors are looking for, they're not looking for a utility to shoot the lights out. Guys are up 8%, 10% dividend growth. They're not getting paid for that, right? And I -- that's not where we're going to go.

We wanted to deliver consistent dividend growth, and we think that's around that sort of 6% level. And given our outlook for our business, given our existing payout ratio, we feel really comfortable that we can deliver that over the 5-year period.

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**James P. Laurito** - *Fortis Inc. - EVP Business Development*

And just a point to reemphasize the ITC question, Ben, we saw exactly that when we acquired the company. ITC's current plan is a bit better than what we saw when we acquired the company, as Barry said, but they have a really strong and consistent history of making those outer years, 3, 4 and 5 into 5-year plans better than they looked 2 years prior. So if you go back and look at history, those 3 and 4 and 5 years always seem to fill in. So we're very optimistic.

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

And Barry, just to check the -- do you need 6% rate base growth to feel confident about the 6% dividend growth?

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

No, we don't. I know -- if I -- if we can get 5% solid, I'll be highly comfortable. It's -- I think we can do that. We're doing that for the next 3 years already, so -- and we're just getting started. This is a big shift now at Fortis. We went through a major push into America, a lot of focus on delivering those deals in the way we did. Now all that energy is being focused back on our business to grow that business nicely now over the next few years. And the fact that we've put $1.5 billion capital in our 5-year plan in the first turn of that give you a sense that -- because these things take time, the planning process, studying whether we should put capital or not takes time, and we're just getting started on that. So next year's integration of the business plan, I'm hoping, obviously, not preordained, but I'm hoping that we're going to still see further progress on more opportunities to invest in our existing utilities.

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Question over here from Robert, CIBC.

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**Robert Catellier** - *CIBC World Markets Inc., Research Division - Executive Director of Institutional Equity Research*

Robert Catellier, CIBC. I just wanted to ask about the generation strategy. Understanding you mentioned there's not a big appetite for merchant generation, how big a component of your portfolio -- earnings contribution can you see generation growing to? And if you can address the question, both on the context of what you're comfortable with from an earnings risk perspective but also in the context of what your rating -- your debt rating agency parameters might be.

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

Well, I want 0 merchant generation. 0. I don't think about, let's say, Waneta in B.C. and Hydro plant there has merchant, for example, has 2 40-year PPAs, one with our own utility and one with BC Hydro. Even the Teck purchase that we were looking at doing, it had long-term PPA with Teck. So you say that's Teck, its mining. But frankly, we have the ability to bring that generation into our own utility in the event that Teck shut down its smelter in Trail. Now unfortunately for us, the BC government stepped in and collected that asset and

Teck paid us a break fee of $28 million. But I think as an example is that -- those are the kind of assets we look for. If it's solar, clearly, long-term PPAs. We're not looking at, again, merchant generation. Transmission, I think Erie Connectors, some people call it merchant. It will not be merchant. It's going to have to have a long-term party contract. They have -- give some of the way to use that line on a take-or-pay basis for 20, 30 years, basically. That's the kind of stuff we're looking at. In terms of size of that non-reg segment, our balance sheet is $50 billion almost at this point in time. I suppose, over the long term, we could see it go to 10% on the balance sheet. Right now, we're 97% regulated. Maybe over a very long term, we could let that long-term contract infrastructure go to 10 of 100, basically. So -- but it's never going to be a very big part of the business. We're focused on the core regulated utility business.

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

And Robert, if the investment we make -- investments we make are characterized the way that Barry describes it, I think we've got sufficient capacity on the balance sheet and the current credit ratings to be able to do that. But it will depend upon the characteristic of the investment highly contracted the right counterparties no more than 10% of our business. I don't see any strain on our current credit rating as a consequence of that.

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**Robert Catellier** - *CIBC World Markets Inc., Research Division - Executive Director of Institutional Equity Research*

Just a quick follow-up question on the M&A strategy. I heard your comments loud and clear as to why you don't think that's valuable for the company currently, but I'm wondering what impact the current tax reform in the U.S. or potential tax reform in the U.S., how that influences that...

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

Hey, listen. You've got to acknowledge it's there, right? We don't think it's a material impact for Fortis in any way. But if you're going to go off now and make another major expansion in the U.S. with the overhang of tax policy sitting out there, why would you do that? Why would you not just wait a little bit and let it all settle down and then decide what you're going to do. I think that would be the prudent course of action. I think, ultimately, the situation in the U.S. is going to be beneficial to utilities. Lowering tax rates will create more space likely for -- on the bill, allowing for infrastructure investment, the economy's picking up. So overall, I'm bullish on the U.S. But from a transaction perspective, with the uncertainties right now, I'm thinking, especially anything big, it'd be unwise to look at it.

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

I think we have time for one more question here in the back.

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

Remind everyone, we're going to have lots of time this afternoon if you're participating in the roundtables to grill us again, so...

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**Winfried Fruehauf**

I have a 2-part question. First part is...

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

26 seconds only for you.

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**Winfried Fruehauf**

We must follow the first.

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

Go ahead.

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**Winfried Fruehauf**

What is -the amount of the allowance during construction associated with your capital projects through 2022? That's the first question.

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

Don't know that number off the top of my head, Winfried. It's -- we can follow up with you on that.

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**Winfried Fruehauf**

So that means I cannot really ask my second part.

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

So the first answer is good then.

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**Winfried Fruehauf**

But the second part would have been, is that amount included or excluded in your projected capital expenditures?

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

It's included.

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

I think overall growth rates would go up slightly if we included it, right? So, Stephanie, I think...

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Close to it, yes.

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

I think, it's -- Stephanie, you know the answer to this. Why don't you answer?

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

It -- yes. It's not that meaningful, Winfried, generally speaking, but...

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

No. Exactly. It's not that meaningful.

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**Karl W. Smith** - *Fortis Inc. - EVP, CFO*

Very marginal.

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**Stephanie A. Amaimo** - *Fortis Inc. - VP of Investor Relations*

Any last-minute questions before we move onto the next section, which will be lunch, a break? And then thank you for those who have joined us today. We do plan on having an afternoon session upstairs. So that will start promptly at 12:30. So thank you.

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